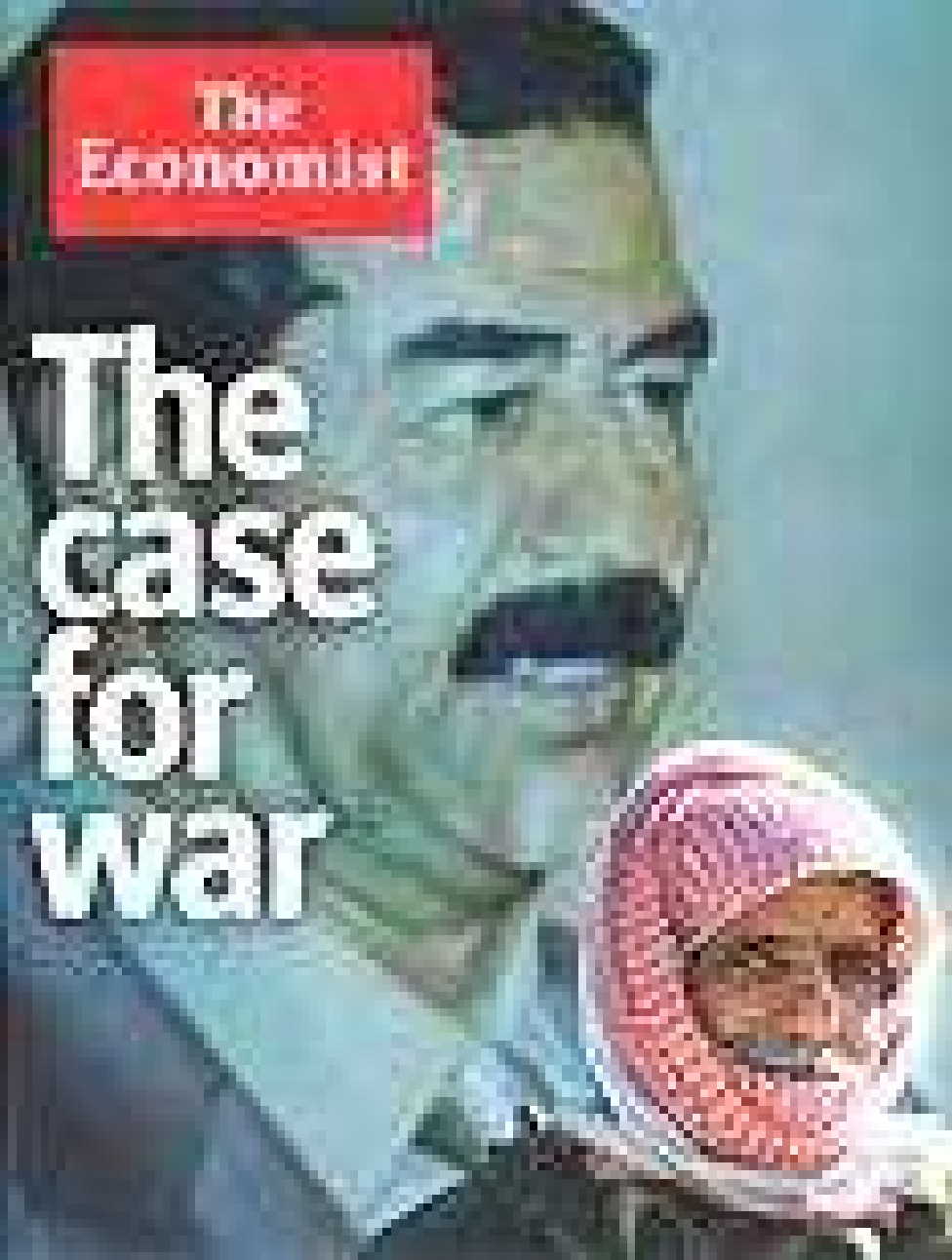
The Economist

The case for war



PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

GLOBAL AGENDA

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Advertisement

Print Edition August 3rd 2002

The case for war
If you will the end, it is only honest to will the means ... More on this week's lead article

The world this week

Politics this week
Business this week

Leaders

Iraq and America
The case for war

Trade
Fast track to Doha

Gibraltar
In defiance of democracy

Latin American economies
Stopping the rot in Brazil

Fast-food lawsuits
Oh, temptation

Letters

On the environment, CEOs, history, Oklahoma, George Bush

Special Report

America and Iraq
Phoney war

United States

The economy
Unwelcome numbers

The Democrats
Sleepless in Manhattan

New York city's schools
Microsoft? Child's play

The Washington mayor's race
Watch out for Mr Blair

Espionage in history
The spies they are a-changin'

The Bay Area
Still fizzy

Lexington
Rock and remembrance

The Americas

South America's economies
Panic comes calling

Politics in Colombia
Uribe's hour

Politics in Ecuador
Taken for a ride

Atlantic Canada
A gleam in the mist

Asia

Terror in South-East Asia
The elusive enemy

Japan
Backtracking Koizumi

North Korea and America
Strange meeting

Asia's poor
Miracle incomplete

Indonesia
Justice on trial

New Zealand
Helen of ploy

China
Bureaucrats and bikes

Previous print editions
Jul 27th 2002
Jul 20th 2002
Jul 13th 2002
Jul 6th 2002
Jun 29th 2002
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Business

Troubled media giants
Another one bites the dust

Professional services
Goodbye, Monday

Company bosses
Executive couching

Airlines
Signs of life

Corporate wrongdoing in Japan
A whiff of impropriety

Car hire
Budget deficit

Generic drugs
A good week for copycats

Face value
Bidding for recognition

Finance & Economics

American trade policy
Promoting the noble cause of commerce

Audit firms
Tough new world

European insurance
Hard hit

Nigeria's currency black market
Mission impossible

Japanese convertible bonds
Know your customer

GE Capital
One into four

Japan's economy
As you were

Economics focus
Managing the world economy

Science & Technology

The origins of violence
Nurturing nature

The Vinland map
To be or not to be

Predictive medicine
And now here is the health forecast

The Vienna zoo
Many happy returns

Assessing hurricane risk
Sounds like trouble

Books & Arts

Screenwriting
Small-screen sparkle

The superpowers in Africa
Killing fields

Travels in Siberia
Unsheltering sky

Science
King Faraday

Short stories
Nasty but nice

Middle East & Africa

Hunger in southern Africa
Can famine be averted?

Angolan reunification
Happy families

Arab political prisoners
The red lines

Israel and Palestine
What might have been, perhaps

Europe

The politics of pensions
We know what's best for your old age, why can't you see it?

Measuring deficits
Roll over, Enron

France's regions
Devolution for Corsica?

Slovakia's politics
The secret service gets its (own) man

Russian families
So where are all the men?

Charlemagne
Spain's would-be heirs to Aznar

Britain

Welfare state
The tender trap

Anti-terrorism
Told you so

Crime
Paradise lost

Gambling
Losing streak

Niche sports
The running of the boules

Bagehot
The spring in Mr Blair's step

Articles flagged with this icon are printed only in the British edition of *The Economist*

Indian and Japanese bestsellers
What the world is reading

Obituary

Joaquin Balaguer

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Long-term unemployment

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

The world's biggest companies

Emerging-Market Indicators

Overview

Human Development Index

Economy

Financial markets

Advertisement

Classifieds

Jobs
Governance Fellow on Security and Development (Ref 159)
This is an exciting opportunity to join one of the world's ....

Business / Consumer
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Requests Expressions of Interest for The Development of a New Lignite Mining Facility and Associated New Electric Generating and Transmission

Jobs
Marketing Associate Needed
Marketing Associate Provide analytic support to the Global Product Strategy Group Respo....

Tenders
Republic of Ghana Ministry of Trade, Industry, PSD & PSI - Request for Expression of Interest: Preparation of Competition Bill for Ghana

Jobs
Regional Director Balkans
Job Profile Our Regional Director Balkans (based in Tirana), leads and mobil....

Sponsors' feature About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Aug 1st 2002
From The Economist print edition

Middle East violence

AP

The cycle of violence continued in the **Middle East**. Palestinian terrorists killed two Israelis and five others by planting a bomb in a handbag in a student café at Jerusalem's Hebrew University. Palestinians held a celebration march in Gaza.

See article: Israel and the Palestinians

A United Nations report dismissed Palestinian claims that Israel had "massacred" hundreds of civilians in the **Jenin refugee camp** in April. It said that 52 Palestinians were killed in the fighting, as many as half of them civilians. Israel lost 23 soldiers. The UN faulted Israel for using heavy weapons in an urban area, and the Palestinians for using the camp as a base for some 200 fighters.

Tehran's Revolutionary Court sent 33 members of the **Iran Freedom Movement** to jail for up to ten years and outlawed their party. They were charged with trying to overthrow "the holy system" of government with new ideas.

Egypt sentenced Saadeddin Ibrahim, a respected Egyptian academic, to seven years' imprisonment, in effect for criticising the government. Separately, an Egyptian military court imprisoned 16 Islamists, most of them academics or professionals.

See article: Political imprisonment in the Arab world

Rwanda and **Congo** agreed on a peace pact. Rwanda promised to withdraw its troops from eastern Congo if the Congolese government disarms or expels the Hutu militias hiding in Congo. Some of these militiamen took part in the Rwandan genocide of 1994; Rwanda fears they will strike again. Militia leaders said they would not disarm.

See article: Africa's wars

Nelson Mandela, **South Africa's** ex-president, rebuked his successor, Thabo Mbeki, for his handling of the AIDS epidemic, urging him to make antiretroviral drugs available to all who need them.

In **Equatorial Guinea**, Fabien Nseu Guema, an opposition leader, got a year in jail for insulting the president, Theodoro Obiang Nguema.

Not your place

Britain's government is thinking about limiting one of Margaret Thatcher's proudest legacies: the right of council tenants to buy their homes. The government is worried that some areas have too little social housing.

France's interior minister, Nicolas Sarkozy, enlisted the support of his Romanian counterpart in a programme to expel Romanian beggars and prostitutes, many of them gypsies, from France.

In **Albania**, Fatos Nano, leader of the Socialists, was installed as prime minister. Bad news for Albanians, on past form.

After meeting Germany's Chancellor Gerhard Schröder, President Jacques Chirac said both countries thought an **attack on Iraq** would be justified only with a mandate from the UN Security Council.

See article: Saddam Hussein's plans, and America's

German opinion polls showed Edmund Stoiber, the conservative challenger, catching up on Mr Schröder, and the conservative parties, already ahead of Mr Schröder's Social Democrats, increasing their lead.

Turkey's parliament voted for an early general election, on November 3rd.

A jet aircraft crashed at a **Ukrainian air show**, killing over 80 spectators and injuring 120 more. It was the world's worst air-show disaster.

AP

Up, down, up

The Senate seemed likely to follow the House's example by giving President George Bush “fast track” authority for negotiating trade agreements. The authority, which expired in 1994 under Bill Clinton, guarantees that Congress will vote promptly on trade agreements and be unable to amend them.

See article: World trade talks

The Senate held hearings on the possibility of **war with Iraq**. Joseph Biden, chairman of the foreign-relations committee, gave warning that an attack might cause what it aimed to prevent: Saddam Hussein's use of weapons of mass destruction.

See article: Iraq, America and the case for war

James Traficant, a Democrat recently kicked out of Congress, was sentenced to eight years in prison when he was convicted on corruption charges.

Nine **coal miners** were saved from a mine shaft in Pennsylvania, having spent 77 hours in tunnels flooded with millions of gallons of water.

Advance Australia unfair

A report by the special envoy for the United Nations High Commissioner for Human Rights criticised **Australia's** policy of detaining asylum-seekers. It picked out the detention of children and the length of time taken to decide on asylum applications.

South Korea's parliament voted to reject the country's first female prime minister, Chang Sang, who was nominated by the president, Kim Dae Jung, in a cabinet shuffle on July 11th. During a two-day hearing in the National Assembly, MPs accused Mrs Chang of lying about her past and her property dealings.

Colin Powell, America's secretary of state, held an informal meeting with Paek Nam Sun, his **North Korean** counterpart, during an Asian regional security summit in Brunei. It was the countries' highest-level meeting for two years.

See article: North Korea

Latin rites

Several South American currencies and bonds took a beating. Finance officials from **Brazil** dashed to the IMF for talks after the *real* fell by about 8% in three days. **Uruguay** decreed a three-day bank holiday and joined the queue for extra IMF help. Paul O'Neill, America's treasury secretary, said this would “end up in Swiss bank accounts”. Brazil howled; the White House said it trusted both Brazil's government and Mr O'Neill.

See article: South America's trembling economies

The **pope** visited Guatemala, where he canonised a little-known 17th-century Spanish missionary, and Mexico, where he did the same for Juan Diego, a better-known but probably mythical 16th-century Mexican Indian. He also spoke publicly for the first time about the sexual-abuse scandals that have damaged the Catholic church, saying that they had caused “a deep sense of sadness and shame”.

AP

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Business this week

Aug 1st 2002
From The Economist print edition

A wobbly recovery

In the second quarter, **America's economy** grew by a meagre 1.1% at an annual rate, as consumer spending slowed and companies' inventories swelled. Consumer confidence is also falling, which bodes ill for a swift recovery. Revised figures also revealed that the economy had contracted in the first three quarters of 2001, contradicting earlier claims that recession was avoided last year.

See article: Sluggish growth at best in America

Middelhoff off

Thomas Middelhoff became the latest high-profile casualty of the battle to unite media and the Internet. Differences with **Bertelsmann's** board over plans to take the German firm public prompted his departure as chief executive. His efforts to engineer “convergence” between traditional media offerings and the online world were called bold and innovative; Bertelsmann, having borne the cost of this, may now try something more staid and conventional.

See article: Bertelsmann's Middelhoff

Pearson, a British media conglomerate (and part-owner of *The Economist*), announced pre-tax losses of £188m ($272m) for the half-year, after a hefty write-off for goodwill, and said that profits for the year would be down by as much as 15% (see correction). A long advertising recession (with no end in sight) was cited as a culprit.

Switzerland's best-known investor and corporate gadfly, **Martin Ebner**, fell victim to the bear market. He was forced by big stockmarket losses to relinquish control of all four of his publicly traded investment vehicles.

Big Blue Monday

IBM agreed to pay $3.5 billion in cash and shares for PricewaterhouseCooper's consulting arm. Hewlett-Packard backed out of a deal two years ago to buy the consulting firm for a rumoured $18 billion. PwC will abandon plans for an initial public offering of the consultancy, and, to the disappointment of fans of risible rebrandings, will no longer rename it “Monday:”.

See article: IT consulting

Fiat's car unit suffered losses of *euro*394m ($362m), pushing the Italian company into a loss of *euro*34m in the second quarter. Fiat's strategy of making cars that few want to buy has led to cuts in jobs and production. Fiat's salvation? Exercising an option to sell its 80% stake in the car division to General Motors, which already owns 20%, in 2004.

BP reported second-quarter replacement-cost profits of $2.2 billion, down 36% on a year earlier because of falling oil prices and refining margins. However, the oil giant remained optimistic: first-quarter profits forecasts were handily surpassed, the dividend was raised and the company is confident it can raise

production by over 5% this year.

Qwest heads west

Qwest Communications joined the confessional trend of American business. The troubled telecoms group admitted to “errors” in its accounting treatment of revenues totalling more than $1 billion over the past three years. Internal investigations and a probe by the Securities and Exchange Commission could reveal more. The company's shares dived yet again.

AOL Time Warner, the world's biggest media company, confirmed reports that America's Justice Department had joined the Securities and Exchange Commission in an investigation of the company's accounts.

See article: Turmoil in the media business

Dynegy's failed attempt to pick at the carcass of Enron, once its much larger rival, had appeared to yield a consolation prize: a pipeline running the length of America, acquired at a cost of $1.5 billion. Satisfaction was short-lived; the energy trader was forced to sell the pipeline for $928m to a company controlled by Warren Buffett in order to avoid bankruptcy. Another beleaguered energy trader, **Williams**, is also struggling to secure new financing to avert bankruptcy.

President George Bush signed a tough new bill aimed at stemming the recent flow of **corporate corruption** and fraud that has hit confidence in American business and driven down stockmarkets. American markets bounced back from weeks of gloom after Mr Bush belatedly supported the legislation, which introduces stricter rules for auditors and longer prison terms for bent bosses. WorldCom's former CFO and controller were arrested for their role in the telecoms firm's $3.9 billion accounting fraud.

Coining it

A coin with a face value of $20 fetched $7.6m at auction in New York. The last existing “**double eagle**”, one of half a million minted in 1933, was among ten that escaped melting after Franklin Roosevelt took America off the gold standard during the Depression. It alone avoided a round-up in the 1950s.

Boeing was reported to be working on an anti-gravity machine. Alas, for fans of H.G. Wells, who dreamed of it first, it was no more than the leak of a presentation on the notions of a Russian scientist. Next in the silly season: cold fusion in a glass, or the Loch Ness monster?

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Iraq and America

The case for war

Aug 1st 2002
From The Economist print edition

If you will the end, it is only honest to will the means

Get article background

Reuters

ITS founders called on America to show a decent respect for the opinions of mankind. And so, by and large, it does. But in the case of the looming American war against Iraq, another wise saw needs to be borne in mind. This one can be found pinned in many a corner shop. It advises customers against asking for credit, because “a refusal often offends”.

In much of the world, and even among some Americans, indignation is growing at George Bush's slow but remorseless preparations to remove Saddam Hussein, Iraq's president, by military force (see article). No step, the complainers say, could be better calculated to offend a billion Muslims and confirm fears that, after September 11th, the over-mighty superpower feels entitled to trample wantonly on any enemy, imagined or real. At the least, it is argued, America should abide by the rules. If Mr Bush is planning military action against Iraq, he should first ask the UN Security Council for permission. At talks in Germany this week, the French president and the German chancellor said once again that there could be no new military action against Iraq without fresh UN approval.

Will Mr Bush seek a new resolution before removing Mr Hussein? It is unlikely. If he asks, he may be refused, and a refusal often offends. Having refused, the other members of the Security Council will be offended in turn if—make that when—America, with Britain probably alongside, strikes Iraq regardless. Lawyers for America and Britain will claim that Mr Hussein's wholesale violation of the UN disarmament agreements he signed after being driven out of Kuwait in 1991 is all the justification they need. But with all due respect to the Security Council, the legal arguments its members deploy to justify their prior political choices are not especially gripping. The issue here is not *Jarndyce v Jarndyce*, a quarrel about small print. It is the danger Mr Hussein poses to the world, and whether that danger is big enough to justify the risks of a war.

How bad does he have to be?

The danger Mr Hussein poses cannot be overstated. He is no tinpot despot, singled out for arbitrary American punishment. Nor is Iraq a banana republic. With the possible exception of North Korea, but perhaps not even then, Mr Hussein is the world's most monstrous dictator, who by the promiscuous use of violence has seized unfettered control of a technologically advanced country with vast oil reserves. He has murdered all his political opponents, sometimes squeezing the trigger in person. He has subdued his Kurdish minority by razing their villages and spraying them with poison gas. In 1979 he invaded Iran, thus setting off an eight-year war that squandered more than 1m lives. In 1990 he invaded and annexed Kuwait, pronouncing it his “19th province”. When an American-led coalition started to push him out, and though knowing Israel to be a nuclear power, he fired ballistic missiles into Tel Aviv, in the hope of provoking a general Arab-Israeli conflagration. Next time you hear someone ask why, in a world full of bad men, it is Mr Hussein who is being picked on, please bear all of the above in mind. He may very well be the worst.

And yet it is not simply in his record of aggression, cruelty and recklessness that the peril to the wider world resides. If that were all the story, the danger might be easily contained. The unique danger in Iraq

is that this country's advanced technology and potential oil wealth could very soon give this aggressive, cruel and reckless man an atomic bomb.

How dangerous would that be? To judge by the reaction of Mr Bush's foreign critics, the magnitude of the threat is in the eye of the beholder. But it is not difficult to see why, after September 11th, Americans in particular find it hard to be sanguine about the prospect of a sworn enemy equipping himself with weapons of mass destruction (WMD). In the worst case, these might one day be used against the United States, either directly by Iraq itself or by some non-state group to whom Mr Hussein had transferred his lethal technology. At a minimum, a nuclear-armed Mr Hussein could be counted on to revive his earlier ambitions to intimidate his neighbours and dominate the Gulf. Prophesying is difficult, especially about the past. But if Mr Hussein had already had nuclear weapons when he invaded Kuwait 11 years ago, he might still be there.

The unique danger in Iraq is that its advanced technology and potential oil wealth could soon give this aggressive, cruel and reckless man an atomic bomb

Presidents and precedents

Many people who acknowledge that Mr Hussein is a danger nonetheless oppose Mr Bush's plan to depose him, on the ground that this would in itself set a dangerous precedent. How safe would the world really be if the United States, armed now with Mr Bush's new doctrine of pre-emption, swanned about it shooting up any country that possessed or sought to acquire weapons of mass destruction, deposing any president whose face it did not like? That is a good question. It is not, however, the question that arises in Iraq.

When he invaded Kuwait, Mr Hussein forfeited some of Iraq's normal sovereign rights. After his defeat, it became apparent that Iraq had been secretly developing chemical, nuclear and biological weapons, in contravention of its treaty obligations, such as those under the nuclear non-proliferation pact. Given this, and his recent aggression, the United Nations put Iraq under a uniquely intrusive system of surveillance, designed to ensure that his WMD efforts would come to an end. Crippling economic sanctions were to be lifted only when the UN's arms inspectors could be sure he had complied. Eleven years on, Iraq is still crippled, the inspectors have been forced out, and nobody believes that Mr Hussein has given up seeking a bomb or scrapped all the chemical and biological weapons he already has. He has literally preferred to starve Iraq than to give up his appetite for them.

At a minimum, a nuclear-armed Mr Hussein could be counted on to revive his earlier ambitions to intimidate his neighbours and dominate the Gulf

None of this is to argue that a war to remove Mr Hussein should be undertaken lightly. Though the Iraqi army is even less of a match for America's than it was a decade ago, that was a different sort of war. With his own head and not just his most recent conquest at stake, and especially when he calculates that he has nothing to lose, Mr Hussein might very well use the unconventional weapons he has collected. The casualties this time—especially the civilian casualties—could be much larger than they were before.

It is little wonder, given this, that people of goodwill are groping for a safer alternative. But wishful thinking in the face of mortal danger is bad policy. Perhaps the best hope is that, as the noose tightens, Mr Hussein will save himself by letting the inspectors return. If they did so on a credible go-anywhere, check-anything basis, such an opportunity would be worth grabbing, at least to see if it worked.

Failing this, however, the outlook is grim. Some argue that a better alternative to war is to keep Mr Hussein in his box, persevering with the strategy of containment. But after 11 years, it is time to acknowledge that the box is full of holes and that containment has failed. By keeping Iraq poor, the sanctions have inflicted suffering on Iraq's people and so brought America and its allies into disrepute in much of the Arab world. But the sanctions have not dulled the Iraqi leader's appetite for the most lethal of weapons, and have slowed rather than stopped his ability eventually to procure them. The honest choices now are to give up and give in, or to remove Mr Hussein before he gets his bomb. Painful as it is, our vote is for war.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade

Fast track to Doha

Aug 1st 2002
From The Economist print edition

With one leap, America has turned from protectionist villain to free-trade pioneer

Get article background

AFTER months of protectionist backsliding, American trade policy has taken an unexpected and welcome step forward. On July 27th the House of Representatives voted 215-212 to grant George Bush “fast-track” trade negotiating authority. The Senate is expected to follow soon. Fast-track—a 1970s procedure under which Congress votes for or against a trade deal without amending it—is a prerequisite for any trade agreements, since other countries will never strike deals with America that could be unpicked in congressional committees.

Five previous presidents have had fast-track. But it lapsed in 1994 and, as Congress grew more disaffected with trade, Bill Clinton never won it back. For the Bush administration, then, the fast-track vote is a much-needed success. Mr Bush hailed it as a “landmark agreement”. His supporters claim that it vindicates a string of concessions to steel, farm, lumber and textile lobbies. These protectionist sops, they argue, were a small price to pay for such a giant leap towards freer trade.

Not so fast. Mr Bush has indeed won a big victory. But the passage of fast-track does not, by itself, promote free trade or undo the damage of this year's steel tariffs or the farm bill. Rather, it gives Mr Bush the chance at last to prove himself as the free-trader that he claims to be. And that means using fast-track wisely—and, in the process, facing down the protectionist lobbies to which he has so far pandered.

Get the focus right

The biggest challenge may be to focus on the right negotiations: the trade round launched at Doha last November. Bob Zoellick, Mr Bush's trade negotiator, has long argued that America can pursue “competitive liberalisation”, pushing trade deals at bilateral, regional and global level simultaneously. But that risks dissipating energy on easy bilateral deals, with dubious trade-enhancing impact, at the expense of tougher, but far more beneficial, multilateral negotiations. Mr Zoellick's renewed emphasis on bilateral deals is worrying. As well as completing trade agreements with Chile and Singapore, there is now talk of deals with Morocco and Australia, and regional agreements with countries in Central America and Southern Africa. Half a dozen preferential trade deals sound highly ambitious. If they come at the expense of progress in the Doha round, they will also prove a big mistake.

No global trade round has been concluded without American leadership, and Doha will be no exception. Discussion has so far been more about the process of negotiations than the substance. America's lack of fast-track has given too many countries the excuse to vacillate. With that excuse gone, America can now lead a bold agenda. In particular, it must persuade poor countries, which felt short-changed by the previous Uruguay round, that a Doha deal will be good for them.

Indeed, there are signs that America is stepping up to the plate. On July 25th, before the fast-track vote, the administration laid out a commendably radical plan for freeing trade in agriculture. Over five years, the Americans propose to eliminate export subsidies for farm products, and to slash both tariffs on farm goods and trade-distorting subsidies for farmers. The effect would be to remove $100 billion in global trade-distorting subsidies and to cut the average global tariff on farm products from 62% to 15%. Those who coddle their farmers most, notably the European Union and Japan, would have to make even steeper

cuts than America.

These are exactly the goals to which the Doha round should aspire. But credible American leadership requires more than one radical blueprint. The administration must rectify the plan's self-serving appearance. The focus on eliminating export subsidies, which are used far more by the Europeans than by America, obscures the fact that America's export credits and its food-aid programme distort global farm trade too. Mr Bush must also overcome the legacy of the lavish farm bill he signed in May. For now, the administration's actions to boost farm subsidies (albeit to levels still lower than in Europe) speak louder than lofty words about cutting them. But if America can reverse course, that would help countries in Europe, such as Britain and Germany, that are fighting to push through the European Commission's recent plans for a radical reform of the EU's common agricultural policy.

Agriculture may be at the heart of Doha, but American boldness must stretch further still. Poorer countries want greater access to rich-country textile markets, and assurances that anti-dumping rules will be wielded much less freely. Mr Bush's steel tariffs have made them even more determined that these trade-remedy rules need to be revised. The Doha round will not succeed without support from developing countries. With fast-track in hand, Mr Bush has a chance to win it. But his hard work has barely begun.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Gibraltar

In defiance of democracy

Aug 1st 2002
From The Economist print edition

Spain and Britain want to force a change of status on Gibraltar. They should stop

Get article background

REX

IN PAST centuries, the rulers of Europe traded territories and their citizens like sheep. Gibraltar was one: by a treaty signed in Utrecht in 1713, the king of Spain—unwisely, but he did it—ceded the Rock to Britain. Though the British soon broke its terms, allowing, oh horror, Jews and “Moors” to live there, that treaty still stands. As for the now 28,000 Gibraltarians, today's British and Spanish governments seem to think that the princely disdain of 1713 stands with it. They are wrong.

Spaniards say their country has a “historic claim” to Gibraltar. The word is “claim”; history says they haven't a leg to stand on. Geography is little more help. Europe is dotted with spots— Greek islands next to Turkey, German and Italian enclaves in Switzerland, a Spanish one in France—which geography might allocate to other owners but law and common sense do not.

However, if Britain wants to get rid of Gibraltar, the treaty gives Spain the right of first refusal. That, formally, is why the British government refuses to consider allowing its colony self-determination, unlike most others in the world since 1945. Gibraltar has wide autonomy, and a promise, in the preamble to its 1969 constitution, that Britain “will never enter into arrangements under which the people of Gibraltar would pass under the sovereignty of another state against their freely and democratically expressed wishes.” But Britain's Parliament can always tear up that promise; and unless, as Gibraltarians argue, the treaty is overridden by the United Nations' charter, they are not free to choose for themselves.

Not that they want independence; far from it, nearly all are keen to stay British. This angers Spain's government and dismays Britain's. Spain has not tried force against Gibraltar since 1783. But it has tried diplomacy and, under Franco, strangulation. He shut the frontier in 1969, and it stayed shut till 1985, ten years after his death. Later Spanish governments have tried niggling pressures: slow border crossings, refusal of air flights between Spain and Gibraltar, and the like. At their choice, Gibraltar has become an irritant to relations between Britain and Spain, and to day-to-day business in the European Union.

The people? What business is it of theirs?

Then began the love affair between Tony Blair and Jose Maria Aznar. Last year their officials began negotiating a deal on joint sovereignty. This idea is sensible, in itself. It has just one flaw: the Gibraltarians say no, no and no. They see a deal, or even the mere declaration of principle that the two powers now talk of (to postpone any popular vote in Gibraltar), as the first step towards Spanish sovereignty—and Spain agrees. Last week Gibraltar's government hit back: it will now call a referendum itself, to show its people's feelings. British and Spanish officials have responded with a haughtiness straight from the 18th century: they will not recognise the vote.

And that is the real scandal of this affair. The “problem” of Gibraltar is a Spanish invention. Spain's government has unleashed patriotic fervour over a bit of land lost three centuries ago for which it has no case in law and no practical need; and in rank defiance of the principle that people should, when possible, be governed as they choose. If Gibraltarians wanted joint sovereignty, or indeed to be Spanish, fine, let's do it at once. But they don't. Yet Britain's government has gone halfway along with the denial of democracy. Let it rediscover a spine, and Spain drop its claim, and there would be no Gibraltar affair.

Some hope; but that's what both ought to do.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Latin American economies

Stopping the rot in Brazil

Aug 1st 2002
From The Economist print edition

The presidential candidates, as well as the IMF, can help

Get article background

FOR the second time in two months, fear swept through Brazil's financial markets this week, with the inexorable momentum of Ronaldo, the country's World Cup striker, crashing through opposing defences. The currency slumped and the risk premium on Brazil's bonds soared, putting them on a similar level to Nigeria's.

Why? Brazil has a presidential election in October. Voters will choose a successor to Fernando Henrique Cardoso, who has since 1995 done much to modernise his country's government and economy, but at the cost of piling up a large public debt. Investors abhor uncertainty. And the opinion polls at this still early stage show two leftish candidates, Luiz Inacio Lula da Silva and Ciro Gomes, well ahead of Jose Serra, Mr Cardoso's man. Both front-runners have in the past spoken of “restructuring” Brazil's debt.

But there is a second factor behind the market turmoil. It comes just seven months after Argentina defaulted on its public debt. Argentina is still writhing in an economic agony that saw GDP contract by 16% in the first quarter compared with the same period last year, with unemployment rising to 21.5%. Its woes have triggered a bank run across the River Plate in Uruguay. This week Uruguay's government decreed a four-day bank holiday as it seeks extra aid from the IMF and mulls bank closures. Uruguay's peso devalued by 26% in July alone, raising fears of a debt default in a country that enjoyed an investment-grade credit rating as recently as May.

Although Mexico (thanks to its trade links with the United States) and Chile are largely unscathed, there are troubles elsewhere in Latin America too. A painful economic slowdown (caused mainly by a fall in capital inflows and commodity prices) is now being aggravated by “contagion” (ie, spreading risk aversion) from Argentina's default. Unchecked, this could yet plunge the region into another “lost decade”, like the one that followed Mexico's 1982 debt default.

That is a prospect which outsiders should want to help Latin America to avoid. How can the tide be turned? A resolution of Argentina's monetary and banking problems would help, but this may have to await an election in March. So the answer lies mainly in Brazil, which has by far the largest economy in the region. It faces a choppy few weeks until its election. But a near-term default on the public debt is unlikely: most short-term debt is in local currency and will be rolled over, at a price, by local investors (see article). Even so, Brazil could face a vicious circle of devaluation and capital outflow.

The rational case for aid

Two things could now help Brazil ride out the storm. The first is more aid from the IMF. True to form, Paul O'Neill, America's undiplomatic treasury secretary, this week once again suggested that no aid should be forthcoming, arguing that Brazil had to change its economic policies so that any aid “doesn't just go out of the country to Swiss bank accounts”. Had Mr O'Neill troubled to inform himself, he would have discovered that Brazil has stuck rigorously to the deals it has negotiated with the IMF since 1999, and that much of the money leaving the country is debt repayments by Brazilian companies to foreign banks that have yanked credit lines they would normally have renewed. Brazil, in short, seems a candidate which deserves some further assistance.

Brazil's agreement with the IMF runs out in December, when Mr Cardoso departs. Its extension now would be meaningless if it might be repudiated by whomever takes over. That is where the candidates could help, by making it clear that they support responsible policies. A similar agreement helped to turn recession to recovery in South Korea in 1998. Not surprisingly, in Brazil the candidates have seemed reluctant. The IMF is hardly the most popular institution in Latin America.

Two things could help Brazil ride out the storm: more aid from the IMF, and candidates' support for responsible policies

The Fund would be wise not to insist that the candidates sign a detailed letter of intent. They have recently indicated that they would honour existing debt contracts. What is needed now is their verbal assent to two main strands of macroeconomic policy: the large fiscal surpluses required to stabilise the public debt, and the inflation-targeting system that gives monetary stability under a floating exchange rate.

Some Brazilians might see this as the IMF constraining their democratic choice. Yet it still leaves scope for the redistribution of public spending or tax changes, or new social policies. Such an accord might not work, but it is worth a try. After all, who would want to bequeath a financial meltdown to the next president? Only a candidate who knows he will not win.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Fast-food lawsuits

Oh, temptation

Aug 1st 2002
From The Economist print edition

If only fast food were truly addictive

LAST week, Caesar Barber of New York filed a class-action lawsuit against McDonald's, Kentucky Fried Chicken, Burger King and Wendy's, four of the world's biggest fast-food chains. His claim was that they were responsible for his obesity and poor health. According to his lawyer, fast food had created a “craving” in his hapless client, who was blissfully unaware, until his doctor told him, that consuming huge piles of burgers, fries and milkshakes was not actually good for his health.

Such an absurd lawsuit may have been inevitable as soon as the big tobacco settlements began burning a hole in trial lawyers' pockets. But there is a catch: fast food is not addictive. It does not, as a matter of fact, create a real physical craving, because it contains no substance that could induce one.

The Economist suggests that this should now change. Consider the plight of the poor plaintiffs. They must prove that they were physiologically compelled to consume fast food, against the weight of scientific evidence and the dictates of common sense. Then there are the millions more who indulge in the stuff, but who would feel much better about themselves if they knew they had been suborned into doing so. Through the simple introduction of minute amounts of cocaine or nicotine into their wares, fast-food companies could improve the lot of such folk in future.

The benefits would not stop there. Nobody should be keener for fast food to be made addictive than governments. Once fast food became a genuine compulsion, there could be no economic or moral objection to regulating its consumption, as alcohol and tobacco are regulated, and to taxing it. The revenue from this “sin tax” could be used in a pretend effort to wean people off bad food. Many states spent their millions from tobacco settlements on balancing budgets, improving roads or paying teachers more. Supposedly, people in fiscally prudent, literate and well-paved places felt less urge to light up. Taxes on fast-food sales could be used in similar ways. Subsequently bureaucrats, their pensions happily financed by such taxes, could prepare carefully graded rationing schemes.

Making fast food addictive could help the defendants as well. They might follow the tobacco firms, who are living proof that even after murderous litigation you can be both universally reviled and still successful. When the big tobacco lawsuits finished, some thought the end of the industry was nigh. Far from it: they may have to obey fiddly rules about not marketing to small children in North America, but cigarette firms can still mint money in the rest of the world. Last year, theirs was the best-performing industry in the stockmarket. Fast-food companies could follow suit and reap both public-relations and financial victories.

Disclaimer: this leader contains irony. The editor of The Economist hereby declares that he is not aware of any scientific evidence that ironical Economist leaders are addictive.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Aug 1st 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Change of environment

SIR – The anti-pollution measures you describe in your survey of the global environment (July 6th) as market-based stretch the definition of a market. An amended Clean Air Act and pollution taxes are hardly non-governmental approaches to protecting and cleaning up the natural world. They both use the state to force "good" behaviour on people instead of relying on voluntary agreements, as true markets would. You point out that state subsidies distort markets but you seem not to recognise that taxes and government regulations do so too.

Joe Peacott
Anchorage, Alaska

SIR – Your proposal to tax carbon emissions and to use the resulting revenue to reduce taxes on labour does not go far enough. We should impose significant taxes on all uses of non-renewable natural resources, especially those in short supply. The money raised should be used to reduce significantly taxes on labour, our most renewable resource. Future generations will thank us.

John Kjellman
Henniker, New Hampshire

SIR – In fairness and morality we should strive to eliminate all harmful practices that produce impediments for future generations. We have already blemished the future by adding carbon dioxide to the atmosphere. We currently gift the future with the menace of sequestered nuclear waste. Let us not make things worse by sequestering carbon and so sweeping dirt under the carpet and relying on future generations to carry out a meaningful clean-up.

Laurence Williams
Alliance, Ohio

SIR – You fail to address the pressing need to get clean energy to the world's poorest people. Electricity from national grids does not reach the rural poor. They need relatively small amounts of energy to light schools, run health services, increase production and create jobs. To get clean energy to them requires a decentralised approach using local resources such as wind power, solar energy or small hydroelectric projects. A global effort is needed to tackle extreme poverty.

Cowan Coventry
Chief executive
Intermediate Technology Development Group
Rugby, Warwickshire

SIR – Carbon dioxide is a global problem calling for a global solution that takes into account the entire life cycle of the fuels involved ("Environmental enemy No. 1", July 6th). CO_2 life-cycle emissions for natural gas are higher than coal after taking into account leakage during transport through old Russian pipelines. Moreover, coal-fired electricity producers in Europe have invested heavily in new clean-coal technologies—over *euro*7 billion in the past three years—in order to make coal power plants more efficient and environmentally friendly.

Coal reserves are distributed in over 100 countries, and are abundant. The European energy market is strongly dependent on its external supplies. If current trends persist, dependence on external gas and oil will reach 70% of European needs in 2030. Imported non-subsidised coal is the second-most cost-effective source of electricity in Europe.

Andrea Clavarino
Euriscoal
Brussels

SIR – You suggest that the introduction of carbon taxes by governments is a plausible solution to the problem of CO_2. Governments should legislate and force producers to use, store or be penalised for their CO_2 but transparent markets should determine prices. Producers should be free to choose how they pay for CO_2 creation, whether by storage, technological advancement, consumption (such as "hiring" forests) or the purchase of emissions credits. This would give rise to a competitive industry that determines accurate prices for the most efficient and cost effective manner of reining in CO_2's environmental threat.

Sean Gilbertson
Chief executive officer
globalCOAL
London

SIR – The giant headline proclaiming coal as "Environmental enemy No. 1" is misleading. The real culprit is our thirst for energy, which exceeds the pace of developing cleaner energy sources.

Tom Heischman
Bethesda, Maryland

America's unloved bosses

SIR – Thank you for standing up for unloved CEOs (Lexington, July 20th). Rich businessmen are just trying to be liked and, to that end, resort to giving away millions to charity. One hopes that your heartfelt article will help more people to realise the difficult situation in which American bosses find themselves. I humbly suggest a campaign encouraging all of us to send flowers to our favourite CEOs to show that we really do like them.

Antoine Martin
Kansas City, Missouri

Waxing historical

SIR – As the historian and author of "This Sceptred Isle", mentioned in your obituary of the duke of Norfolk (July 13th), may I answer your question on its appeal. It is that history is a brilliant adventure story and appeals to an audience for the most part starved of adventure and a notion of its identity. A recent programme discussed why people have become cynical towards markets, pension-fund management and boardrooms. The answer touched on the concept that society has discarded a sense of duty and Whiggism, and thus history, all of which once quietly balanced the excesses of mercantilism and later capitalism.

Shortly before he died, I asked the duke if he thought a nation leaned on its aristocracy for its identity and therefore learned from its history. His view was that, sadly, none of this any longer mattered to most people and that, comfortingly, history did not repeat itself—only historians did that.

Christopher Lee
"This Sceptred Isle"
BBC Radio 4
London

Watts wrong

SIR – You state wrongly that Congressman J.C. Watts represents Oklahoma's third district, or "Little Dixie" ("Ave atque vale", July 6th). Mr Watts actually represents the fourth district. It is true that the

former third district in south-east Oklahoma was often termed “Little Dixie”, but because of its many southern settlers rather than its high Democratic registration. The modern third district is actually in western Oklahoma, strongly Republican, and prouder of its western farming and ranching heritage than any similitude to the South.

Brady Henderson
Norman, Oklahoma

Bush set fair

SIR – You state that “fewer than half say they would re-elect Mr Bush if a presidential election were held today” (“What did he do?”, July 20th). Fewer than half elected George Bush in the first place.

Jack Bishop
Highland Park, Illinois

SIR – Under a picture of Mr Bush, your headline quotes Bob Dylan: “There must be some way out of here” (July 20th). “Said the joker to the thief”, the song continues. So which one is Mr Bush? The answer is blowing in the wind.

A.D. Pellegrini
Minneapolis

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

America and Iraq

Phoney war

Aug 1st 2002
From The Economist print edition

AP

An American war on Iraq looks a good way off. But the shadow-boxing has begun

Get article background

THE sword suspended over the head of Damocles hung, legend says, by a single horsehair. That hanging over the head of Saddam Hussein is only a little more secure. This is a man on whom the world's pre-eminent power has, in effect, declared war. Indeed, unlike most war declarations, George Bush's *fatwa* against him is personal. America's stated aim is not only to divest Iraq of its weapons of mass destruction (WMD) but also to change the regime in Baghdad. If he were a stock, you would sell your shares in Iraq's president now.

This, however, is a confrontation being played out in the slowest of slow motion. Mr Bush has disclosed his intentions, but not his chosen means or timing. There has been no visible sign of an American expeditionary force taking up positions on Iraq's borders. Mr Bush has not yet done much to prepare American opinion, let alone world opinion, for a big new war. All this suggests that such a war is a long way off. Sometime in 2003, safely ahead of America's 2004 presidential election, is a fashionable guess.

Guesswork is all it can be. Though unlikely, a sudden attack, assassination or coup, without any diplomatic build-up at all, cannot be ruled out. America routinely deploys more than 50,000 service personnel within striking distance of Iraq; these units could be quietly reinforced or “rotated” without attracting much attention. Hence the possible attraction of a surprise attack, using, say, 50,000 well-armed western troops who could be deployed from existing garrisons (and aircraft carriers) while drawing on the substantial amounts of matériel America has already pre-positioned in Kuwait and Qatar.

In recent weeks, calculated leaks, mingled probably with deliberate disinformation, have prompted a frenzy of speculation. But all they really show is that at least half a dozen approaches to toppling Mr Hussein have been looked at by military planners in Washington and London.

One plan—mooted in the American press a month ago—would involve a three-pronged attack from the north, south and west by as many as 250,000 American and British troops. Another is said to involve local opponents of the Iraqi regime bearing the brunt of the fighting, backed up by massive American air power and only a few thousand allied troops—mostly special forces—on the ground. In yet another, an American attack would focus first on Baghdad and other command centres, in a bid to “decapitate” the

regime and pre-empt any move to counter-attack with non-conventional weapons.

This is fascinating speculation. But the official line is that nothing is decided, and the official line may be true. In Turkey last month, Paul Wolfowitz, America's deputy defence secretary, summed things up this way. Mr Bush believes that a regime like Iraq's, which is hostile to America, supports terrorism, and is intent on adding to its unconventional weapons, is not a danger America can afford to live with indefinitely. “How we solve that problem involves a whole range of decisions which only the president can make—and he hasn't made them yet.”

Perhaps. But Mr Hussein is not a passive observer of American decision-making and preparations. The possibility of an American attack now shapes everything he does, at home and abroad.

At home, he has been shoring up his position by the time-honoured method of rewarding his supporters and subduing the rest of the country. Though Iraq's earnings from oil smuggling have been squeezed, military salaries have been increased and officers have been given new cars. As for foreign policy, Mr Hussein must know that he cannot win once America launches an all-out attack on him. His main aim in diplomacy is therefore to play for time in the hope that some external event will render the whole project moot.

This is by no means a barren hope. Mr Hussein's survival to date owes much to the fact that whereas surviving is the one thing he cares about, removing him is one of many things his enemies care about. And distracting events have a habit of coming along. One is the Palestinian *intifada*, which has inflamed Muslim passions against Israel's American protector and constrained the superpower's freedom of manoeuvre. At home in America, the travails of big business appear to have shifted the political agenda and could make it hard for Mr Bush to win support for a risky new foreign adventure.

Hearts and minds

Mr Hussein is a master at exploiting such opportunities. As after his invasion of Kuwait in 1990, for example, he is milking his pose as the Palestinians' champion for all its worth. Iraq pays a bounty of $25,000 to the families of suicide bombers and $10,000 to the families of other Palestinian *intifada* casualties.

He has raised a special force, the al-Quds army, to liberate Jerusalem, and says it would march on the holy city at once if only some other Arab country opened its borders to let it through. Such antics play well on the Arab street, where Mr Hussein is admired for his muscular defiance of America and Zionism. Fear of their own public increases the unwillingness of other Arab regimes to co-operate openly in any American attack on him. Even King Abdullah of Jordan, an American protégé, felt the need to say in London and Washington this week that a war on Iraq could plunge the region into chaos. Most of Jordan's people are Palestinian themselves.

However, Mr Hussein does not only appeal over the heads of other Arab rulers. He has also lately done what he can to mend Iraq's fences with the rulers themselves. Back in 1990, George Bush senior responded to Mr Hussein's invasion of Kuwait by methodically building a regional coalition against Iraq. Mr Hussein is now working busily to thwart the efforts of the present President Bush to do the same.

EPA

How deep a devotion?

A notable success has come with Syria. In 1991, Syria's President Hafez Assad joined America's military coalition against Iraq. His son, Bashar, has taken a different tack. Unlike his father, Syria's new president is not encumbered by the personal bitterness left by the ancient schism between the Iraqi and Syrian wings of the Baathist movement. He has brought about a sea change in relations with Iraq.

Syria is earning fat profits by smuggling out Iraqi oil by both lorry and pipeline. The border has been opened to trade, and Iraq has been careful to channel a lot of its government business in Syria's direction. In return, the Syrians have clamped down on the activities of the Iraqi opposition groups headquartered in Damascus. According to a recent Israeli newspaper report, Syria is also allowing arms destined for Iraq to be shipped through its territory.

For most of the 1980s, Iraq was at war with Iran. But relations with this traditional enemy have also shown signs of improvement. Mr Hussein has curtailed the activities of the Mujaheddin al-Khalq, the Iraqi-based dissident army that harasses the regime in Tehran, and moved to clear up outstanding business, such as the fate of prisoners-of-war, left over from the war between the two countries.

The Iranians hardly admire Mr Hussein; one of the main Iraqi opposition groups, the Supreme Council of the Islamic Revolution, is based in Iran, and may take part in a meeting of opposition groups to be held next week in Washington at the invitation of the American government. Iran would not contemplate supporting Iraq, but as a fellow-member of Mr Bush's so-called “axis of evil”, has no obvious interest in seeing the fellowship isolated and picked off one by one.

Even Saudi Arabia, one of America's closest allies, has succumbed a little to Mr Hussein's charm offensive, or at least to some of the business temptations that come with it. The recent opening of the Arar border post is expected to boost trade between the two countries, routed until now through Jordan. The Iraqis are trying to persuade Saudi Arabia to sign a free-trade agreement of the sort Iraq already has with ten other Arab states. Iraq has at last recognised Kuwait, which it once claimed as its 19th province, and has begun to return the national archives it seized during its 1990 occupation.

The significance of these manoeuvres should not be exaggerated. At some point, Mr Hussein's attempts to win friends and influence people he once fought wars against must be weighed against the political and economic leverage Mr Bush can bring to bear when the time is ripe. In this unequal contest, as in the military one, the superpower is bound to win. But Mr Hussein does have one advantage. His desire to fend off an American attack runs with the grain of wider Arab opinion. America's desire to unseat him runs against it.

Quavering allies

It is no doubt true, as the Americans say, that Arab leaders are ruder about Mr Hussein in private than they dare to be in public. But their public caution nonetheless speaks volumes. In 1990 they feared what Mr Hussein might do next if he were allowed to swallow Kuwait. This time they seem more frightened about the possible anti-American reaction on their own streets. They made their opposition to a new war unambiguous at the Arab summit in Beirut last April.

Could the Arabs be talked round? One message the Americans have received loud and clear is that the Arab reaction would be different if an attack on Mr Hussein were preceded by stronger American intervention on the Arab side in the Palestine conflict.

On the face of it, Mr Bush's policy-setting speech on Palestine last June was just the opposite. He called for a Palestinian state. But by calling also for the removal of Yasser Arafat, and giving Israel's government tacit permission to re-occupy the whole of the West Bank, Mr Bush aligned himself closely with Ariel Sharon, Israel's prime minister and a hate-figure to most Arabs. Yet it is not impossible, once America's own mid-term elections are out of the way in November, that Mr Bush might tilt a little the other way—by convening a regional peace conference, say.

One voice urging Mr Bush in this direction will be Tony Blair's. Unlike most European leaders, Britain's prime minister sounds as worried as Mr Bush does about the perils of a nuclear Iraq. Britain will almost certainly fight at America's side. But Mr Blair keeps telling his Labour Party that no decision has been taken yet. Before doing so, he is liable to press for more political steps to prepare world, Arab, and not least British opinion.

This is not likely to include asking the UN Security Council for approval. Though France's Jacques Chirac and Germany's Gerhard Schröder said this week that such a step was essential, the British and Americans insist that Iraq's violation of the 1991 UN ceasefire terms is all the authority they need for military action. On the other hand, Mr Blair will probably want Mr Hussein to be given one last chance to avoid war by re-admitting the arms inspectors he forced out in 1998.

Sounds fair? It is not certain that Mr Bush will think so. Donald Rumsfeld, America's defence secretary, says that after four years free from scrutiny, Mr Hussein has had ample time to hide his WMD paraphernalia in places where not even the keenest inspectors will now be able to find it. Besides, Mr Bush's declared aim is not only to get inspectors back into Iraq but also to unseat Mr Hussein. The last thing the fiercest hawks in the administration want is to help the dictator wriggle free by accepting the return of the inspectors.

Even if he is not given one last chance to let the inspectors back, this issue presents Mr Hussein with another opportunity to play for time. Since March, Iraqi officials have met Kofi Annan, the UN's secretary-general, and his inspectorate three times to discuss the inspectors' return. The last meeting did not go well. This might mean that Iraq will never allow the inspectors back. More probably, it means that Mr Hussein will offer to co-operate only when he considers an attack imminent. At that point, he will hope for further delay while the Security Council argues about his terms. *In extremis*, Mr Hussein might muddy the waters even further by offering to “step down” and hand the presidency to his youngest son, Qusay.

Will they fight?

What if, in spite of Mr Hussein's stratagems, it does come to war? On paper, Iraq still has one of the Middle East's biggest armed forces. It fought doggedly for eight years against the Iranians. The regular army has 17 divisions with thousands of tanks, and the supposedly “elite” Republican Guard fields six divisions, of which three are armoured. These are supplemented by the 20-odd divisions of the al-Quds army. But Iraq has no air force to speak of, and the number of men and tanks exaggerates the potency of a land force that is short of spare parts for equipment that was already obsolete when Mr Hussein invaded Kuwait in 1990.

When the American-led ground forces went into action then to force the Iraqis out, Mr Hussein's soldiers, dazed and hungry after weeks of bombing, showed precious little fight. Only a fraction of the hundreds of thousands of soldiers America sent to the battlefield saw serious action. Iraq killed hardly any of them. Since then, the technology gap has grown. At the end of December, Mr Hussein ordered some of his forces to move west to show solidarity with the Palestinians. He succeeded mainly in demonstrating the ramshackle condition of his troops; it took more than three weeks to redeploy a single division.

Even if it chose to fight, Iraq's army would clearly be no match against an invading American one. In any straight contest between conventional forces, a relatively small American-led expeditionary force should be able to wreck the Iraqi military quite swiftly, perhaps in a few weeks. The 100,000 or so battle-ready troops of Republican Guard and other elite units may stand and fight, rather than flee or surrender, but they will expose themselves to devastating air attacks.

Besides, many Iraqis may choose not to fight. You would expect the ordinary soldier to be fiercer in defence of his homeland than he was in defence of Kuwait. But would he lay down his life to stave off the inevitable defeat of an unloved dictator? Even the Republican Guard, whose loyalty is now unquestioned, knows what happened in Afghanistan, and might waver if it concluded that the Americans were intent on removing Mr Hussein. The strongest resistance will come from those implicated in the internal repression, such as the “special” Republican Guard, commanded by Qusay, and a new force of toughs known as Saddam's *fedayeen*, with reason to fear for their lives in the subsequent settling of scores.

Conjecture about the low morale of the Iraqi army is comforting. But it is also, to some degree, beside the point. For the big danger in attacking Iraq is not that America will be defeated on the conventional battlefield, nor that it will be bogged down in a Vietnam. It is that once Mr Hussein decides that he has nothing to lose, he will opt for a Wagnerian exit by striking out with his weapons of mass destruction.

Though he had them, Mr Hussein did not use these weapons in Kuwait, presumably because he reasoned, correctly, that he could lose a war there and still cling to power in Baghdad. But in the Iran-Iraq war, he showed no compunction about using chemical weapons once the Iranians crossed into Iraqi territory. And if he used them against American troops, what could the Americans do? Replying in kind would hardly endear them to an Iraq which the United States would be claiming to “liberate”. As in 1991, he might also strike at Israel, this time putting chemical or biological weapons on top of his remaining Scud missiles, or smuggling a “dirty bomb” across the border.

And afterwards?

In a war intended to change a regime, America has to plan not just for military victory but also for a post-war order. A long-stated fear among Iraq's Arab neighbours is that without Mr Hussein's iron fist to hold it together, Iraq might fly apart into separate Kurdish, Shia and Sunni fiefs. This is undeniably a possibility. Mr Hussein has eviscerated his internal opposition, and the opposition in exile is fractious.

For a while, the Americans have therefore been hosting opposition meetings and conferences to plot the

future of Iraq. The feuding opposition groups have been invited to an inter-agency meeting in Washington next week, intended to quell some of the squabbles that have split the Kurds from the rest of the Iraqi National Congress (INC), and the INC from the Iraqi National Accord, the group that has been behind several failed coup attempts.

For their part, the opposition organisations say that the Bush administration is riven by plenty of feuds of its own. The State Department, it is alleged, takes an excessively “realist” view of a post-war Iraq, envisaging the removal of the dictator but his replacement by a traditional authoritarian leadership of the kind that exists all over the Arab world. The Defence Department is said to entertain grander visions about the possibility of establishing a western-style democracy to serve as an example for the rest of the region.

It is hard to say which outcome—disintegration, or the creation of a real democracy—frightens the neighbours most. But the former danger is often overstated. One reason to expect Iraq to stay together is precisely that most of its neighbours want it to. Turkey, Syria and Iran, fearing the precedent, will resist the emergence of an independent Kurdistan. Saudi Arabia, for similar reasons, will not want Iraq's Shias to realign themselves with Iran.

Besides, if it is the Americans who remove Mr Hussein from power, they can be expected to remain on the scene for a while to hold the country together, just as they have, so far with fair results, in post-Taliban Afghanistan. In Iraq, unlike Afghanistan, reconciliation will be lubricated by a gusher of petrodollars. But first Mr Hussein will have to go.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The economy

Unwelcome numbers

Aug 1st 2002 | WASHINGTON, DC
From The Economist print edition

New figures show that America's economy was in recession most of last year. Is it heading that way again?

Get article background

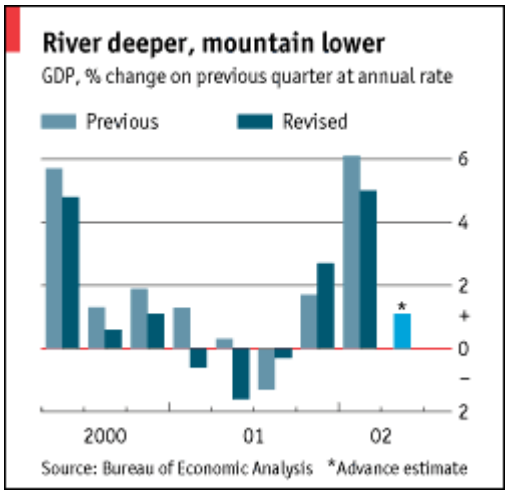
JUST when Wall Street seemed to be getting calmer, some unhelpful numbers from Washington, DC, have appeared on the horizon. Last year's famously short and mild recession was actually not so short after all. According to the Commerce Department's new figures, released on July 31st, the economy was actually shrinking for the first nine months of 2001. America went into recession long before the terrorist attacks of September 11th.

Worse, the recovery that began late last year seems to be sputtering. Initial figures suggest that GDP grew at an annual rate of only 1.1% between April and June, less than half what most analysts expected. In other words, the economy was stalling even before Wall Street's latest swoon. Is America therefore heading for the double-dip recession that the bears predict?

Certainly the repainted picture of America's economy is much less rosy. The Commerce Department's revisions—an annual exercise where the previous three year's statistics are updated on the basis of fuller information—do not, of course, change the reality of today's economy. But by recasting the past they can affect expectations for the future.

The new figures suggest, moreover, that the economy grew more slowly in the boom year of 2000 than was previously thought: GDP rose by 3.8% (compared with last year's estimate of 4.1% and an initial figure of 5%). Revising GDP figures downwards means that the productivity figures will also be marked down when they are released on August 9th.

Jan Hatzius, an economist at Goldman Sachs, reckons that productivity growth for 2000 will probably be marked down by half a percentage point, bringing it below 3%. That is still substantially higher than the trend before the mid-1990s; but it once again erodes the extent of the productivity "miracle" that the New Economy allegedly created. Coincidentally, the Commerce Department also lowered its measure of corporate profits for 2000 by a whopping 10%.



Despite lasting six months longer than originally thought, the 2001 recession was still remarkably mild by historical standards, shallower even than the 1991 recession that cost George Bush senior the election. The real problem is that the recovery seems equally anaemic. Massive adjustments in inventories boosted growth to an annual average of 5% in the first quarter of 2002; then the recovery petered out.

Most observers had expected a slowdown, but few foresaw a second quarter figure of 1.1%. The historical average for economic growth at that stage of recovery is well over 5%. But America's famous shoppers flagged: consumption grew by only 1.9%. And overall investment fell yet again, though there

was a modest rise in spending on computers and equipment, suggesting that the rout in technology investment may finally be coming to an end.

What impact will July's stockmarket slide have on this already sputtering recovery? For investment spending, the outlook is poor. Orders for non-defence capital goods fell sharply in June. With companies' share prices sharply lower and access to credit markets getting tougher, the omens for a rapid recovery in business investment do not look good.

That suggests that the route to continued recovery lies where it has long been: through the consumer's pocket. Consumption, after all, makes up two-thirds of American economic output. Fortunately, there is evidence that Americans were shedding their spring funk and spending more as the summer arrived. Car sales, in particular, seem strong. Boosted by yet another bout of cheap financing offers from Detroit, July car sales could set a record.

But now there is Wall Street's swoon. Though markets have risen from their lows last week, they are still down. The S&P 500, for instance, is 15% lower than it was at the end of May. This has clearly unnerved investors. Mutual funds have seen money flow out of shares. Two well-known measures of shoppers' intentions have fallen sharply. The University of Michigan's consumer-confidence index was stronger at the end of July than preliminary estimates had indicated, but still much weaker than in June. The Conference Board's latest reading saw the biggest confidence drop since September 11th.

Consumer-confidence surveys only show how shoppers feel, not what they actually do. Optimists add that, so far, the wealth effect, under which consumers rein in spending in response to sliding share prices, has been remarkably modest. In 2001 Wall Street's losses had scant impact on consumption.

That was largely due to the housing market. For most Americans, wealth in their home is far more important than any stock portfolio. Falling interest rates boosted house prices and allowed consumers to tap into this money by refinancing their mortgages. With mortgage rates hitting new all-time lows, another bout of refinancing is likely. That could sustain consumption for a while. But unless interest rates fall dramatically, the house market cannot sustain the recovery at the same levels it has so far. Moreover, relying on housing wealth to fuel consumption might create a property bubble.

Bet on sluggish growth

Add these factors together and the economic outlook is decidedly wobbly. America's economy cannot expect much help from abroad. Europe's recovery is looking ropey; Japan's is still weak; and the boom in other Asian economies is itself largely based on exporting to America. Since 1994, 40% of world economic growth has come from the United States. Unfortunately, the prospects for global growth still remain stubbornly dependent on America, and on the American consumer in particular.

Stephen Roach of Morgan Stanley, the loudest of a growing band of pessimists, puts the risk of a double-dip recession by the end of 2002 at 65%. Those odds are probably too high. Another recession this year depends on consumption slowing further. If you add in the possibility of more fiscal and monetary stimulus, the best bet is a prolonged period of sluggish growth. But this week's numbers are a salutory reminder about the peril of excessive optimism.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Democrats

Sleepless in Manhattan

Aug 1st 2002 | NEW YORK
From The Economist print edition

The Democrats are getting their act together at last

AP

"What's that sharp feeling in my back?"

IT IS tough being a Democrat. George Bush may be in trouble. The polls may once again show the economy topping voters' concerns for the first time since September 11th. And Mr Bush's rating as an economic manager is being restated like a WorldCom profit. Yet the Democrats have struggled to turn this to their advantage.

It's especially tough being a New Democrat—the Clintonesque creatures who thronged this week's Democrat Leadership Council (DLC) meeting in New York. As Senator Joe Lieberman admits, they are pro-business at a time when business is in the dog house. And they are high-tech believers in the New Economy at a time when that economy is in meltdown. Some have speculated that corporate scandals would hurt New Democrats almost as much as Republicans, handing the party over to class-warfare Old Democrats.

That might happen. But it hasn't yet. Rather, the party is beginning to find a voice—and it is a New Democratic one. The moderates who cluster around the DLC are the second largest block in the party (after the trade unions); and they take credit for its only presidential successes in decades. DLC events have therefore become a sort of coming-out dance for presidential debutantes, and all but one (of whom more in a moment) duly showed up.

The prize for best speech went to Hillary Clinton, who actually sounded as if she believed the stuff she was spouting. But the general tone was relaxed. The normally pristine Senator Evan Bayh made a risqué joke about a fellow Indianan from a town called French Lick. Mr Lieberman wryly observed that the DLC had invited Tom Daschle, John Kerry, John Edwards, Dick Gephardt and himself to speak, one after the other, to see "whether New York really is the city that never sleeps."

The most revealing thing about the presidential beauty contest was the degree to which the candidates stuck to a twisted version of Britain's doctrine of cabinet responsibility: it doesn't matter what politicians say, as long as they all say the same thing at once. All laid into the president for his "economic leadership deficit"; for blowing the budget surplus; for having no clue about how the economy has changed. Will Marshall, a New Democrat analyst, points out that Mr Bush's economic policy—tax cuts, an energy plan, steel and agriculture protection—is vintage 1980s.

Overall, the Democrats' response to corporate scandals has been relatively restrained. No one has stood up to say: "So much for the capitalist experiment." Indeed, the corporate scandals are actually helping pro-business Democrats.

That is less surprising than it first seems. Mr Bush's tax cut may have split the party: a dozen Democratic senators voted for it. But every Democrat can agree that corporate abuses are Very Bad. For New Democrats there is a double bonus: first they can talk about reforming capitalism without attracting suspicion that they want to destroy the private sector; and second, by being "tough on business", they rebut Ralph Nader's charge that they are just Republicans Lite.

Mr Bush has played into their hands by trying to blame the current market turmoil on the "binge" of the 1990s. "Young people able to afford college and they call that a binge?" thundered Mrs Clinton. "Millions

climbing out of welfare and into new jobs and that's some kind of excess? I am reminded of what Abraham Lincoln once said when his commanders complained about Ulysses S. Grant's binges. 'Find out,' he said, 'what kind of whiskey Grant drinks because I'm going to send a barrel to each of my generals.'" New Democrats happily contrasted Bill Clinton's record (employment up; share prices up; budget deficits down; crime down) with Mr Bush's (the opposite in all respects).

This line of attack could work well in the mid-term election. Beyond that, there remain two important doubts. One concerns the candidate who didn't show up: Al Gore. New Democrats were polite about this, pointing out that, as favourite-in-waiting (if he chooses to run), it's not in his interest to hob-nob with upstarts. Still, Mr Gore was lunching two minutes away from the DLC meeting. Given that the wounds from his populist 2000 campaign have not yet healed, this was quite a snub.

Second, New Democrats pride themselves on new ideas. Their founder, Al From, reiterated that they must come up with yet more to keep pace with the changing electorate. But most of the ideas on offer this week—fiscal discipline, more policemen on the beat—sounded rather old. There are plenty of new areas to be explored: pensions reform, health care, education. But these are exactly where the Democrats are most divided. At the moment, the DLC has managed to unite much of the party behind itself. The real challenge will be uniting Democrats behind a new agenda.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

New York city's schools

Microsoft? Child's play

Aug 1st 2002 | NEW YORK
From The Economist print edition

A trustbuster ends up in charge of a great big monopoly

AP

Stop the decline, Klein

YOU would hardly expect that four years trying to break up Microsoft, the world's most successful private company, would prepare you for running any business—least of all that most creaky of public monopolies, New York city's public schools. But that is the new task for Joel Klein, once Bill Clinton's antitrust boss.

For most of the past century, the New York school system provided poorish children with an extraordinary education. A good example was Mr Klein himself, an alumnus of William Cullen Bryant High School in Long Island City. Mr Klein's father was a postman and his mother was a book-keeper. “I owe my teachers and this city's schools more than I can ever repay,” Mr Klein said after his nomination. His success in his new job, however, will depend on whether he can feel an even greater obligation to the city's pupils.

The turning-down point for New York's schools, many say, was a destructive series of strikes and race riots in a poor part of Brooklyn in 1968. In an effort to mollify the looters, control of the schools shifted from the mayor to local school boards, which often proved corrupt and inept, and then, over time, to powerful trade unions representing teachers and caretakers.

Yet even if circumstances were ideal, the system's sheer size would make it hard to run. New York's schools educate more than 2% of America's children, or more than a million souls. They serve more meals daily (800,000) than any public institution except the armed forces, run more buses than the city's public-transport system, and employ more teachers (80,000) than most municipal school districts have students. The summer programme alone, for more than 200,000 of the most troubled pupils, has a bigger enrolment than all of Philadelphia's schools.

Could any organisation this big succeed? Some schools continue to do well, including Mr Klein's, but too often the results are disappointing. Six out of ten students fail to read or calculate as well as they should for their age. Poorly negotiated contracts mean that teachers are neither appointed nor rewarded for their competence. This shambles costs $13 billion a year, or $11,000 for each pupil.

And yet, as is the way of monopolies, the customers are stuck. Only children from the wealthiest families, who can afford to pay education taxes and then add on non-deductible tuition in a private school, can be saved from the system. All efforts to subcontract management of the most troubled schools to private companies, such as the Edison Project, or to provide vouchers to subsidise attendance at private schools, have been blocked.

Mr Klein is being faulted on New York's call-in radio shows for lacking education experience (he briefly taught in the New York schools after college) and for not being black or Hispanic. This has coincided with the news that his previous employer, Bertelsmann, a German media giant, has just sacked the man who hired Mr Klein: he may have been for the chop himself.

But there are also grounds for hope. The city's mayor, Mike Bloomberg, has just pushed through legislation that restores authority the chancellor lost back in the 1960s. And the current chancellor, Harold Levy, has laid the foundations for change.

Levy's legacy

Mr Levy, a former Citigroup executive, has done a good job over the past three years of preventing problems before they happened. On the two days after September 11th, the school board received more than 20 complaints a day from Muslim and Arab students who felt threatened. Mr Levy went from school to school, emphasising that no child in New York could possibly be responsible for the tragic events and that every religion, including Islam, must be protected. The threats stopped. When some parents said they were worried about moving pupils back to schools near Ground Zero, he shifted his office into the school that was closest.

In the longer term, Mr Levy's greatest impact has been to show how schools are doing through reams of well-organised performance statistics, which are freely available over the Internet. This has made the failures of the system more glaring, and this played a huge role in forcing the city's entrenched political interests to go along with Mr Bloomberg's reform.

It is now up to Mr Klein. His acceptance speech, sadly, was filled with the usual platitudes. Yet, as Bill Gates can attest, once Mr Klein gets stuck into something, he is a hard man to put off. “Monopolies,” Mr Klein once opined whilst at the Justice Department, “have to be held to a different standard because they have monopoly power.” You said it, Joel.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Washington mayor's race

Watch out for Mr Blair

Aug 1st 2002 | WASHINGTON, DC
From The Economist print edition

After all, doesn't he live there?

AP

Dull no longer

AMERICAN politics is slowly losing the people that make it funny. James "the hair" Traficant has been given eight years in the slammer. Bob "B-1" Dornan was long ago kicked out by the voters. Jesse "The Body" Ventura has had enough of politics. Jesse Helms is approaching retirement. As for Jesse Jackson, he stopped being funny years ago.

Now an unlikely figure has stepped into the breach, albeit unwittingly. Anthony Williams, the mayor of Washington, DC, is one of the straight guys of American politics. The only interesting thing about him is that he wears a bow tie. Otherwise he is as dull as his predecessor, Marion "Bitch set me up" Barry, was colourful. Mr Williams looks as if his idea of a nice holiday would be a convention of accountants in Lansing, Michigan.

Only the other day, Mr Williams was a shoo-in for re-election. The only Democrats willing to take him on in the primary were no-hopers. The city's Republican Party did not even bother to field a candidate. Washington's whites love Mr Williams because he has started to clean up some of the mess his predecessor left behind, pushing up their house prices in the process. The lords and ladies of the press, smug in their million-dollar Georgetown mansions, were sure to give the mayor an enthusiastic pat on the back.

But then the straight man was thrust into the middle of a farce of Marion-Barry proportions. To get his name on the Democratic primary ballot, Mr Williams needed to collect the signatures of 2,000 registered voters. He duly hired a small army of signature-gatherers (paying them a dollar a signature) and triumphantly turned in 10,000 more. The only problem was that not all the signatures were genuine. Dozens were written in identical handwriting. A surprising number of global celebrities claimed to be DC residents: Kofi Annan, Billy Joel, Kelsey Grammer and Tony Blair. (Even Mr Blair does not visit often enough to count as a resident.)

It turns out that campaign workers are just like chief executives: couple juicy incentives with loose oversight, and they tend to cook the books. Mr Williams's campaign manager duly resigned. The campaign workers admitted that they did not "personally witness" every signature. And the Board of Elections decided to toss out the lot. The result: the Democratic Party's only serious candidate for the mayorship of an overwhelmingly Democratic city does not appear on the primary ballot.

One obvious solution is for the mayor to run as an Independent. But Mr Williams claims (at least for the moment) to be too loyal to the Democratic Party to consider such a betrayal. Abandoning his party might also entail practical problems. Mr Williams might have to return $1.4m in campaign funds to the party. He might also open himself up to a challenge from another local Democrat.

So he is exploring another solution. On July 30th he asked the DC Court of Appeals to overturn the election board's "capricious and lawless" decision. He also began preparing for the primary on September 10th. His campaign team is busily producing thousands of self-inking stamps for a write-in effort. Let's hope they get the mayor's name right.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Espionage in history

The spies they are a-changin'

Aug 1st 2002 | WASHINGTON, DC
From The Economist print edition

An international museum of mystery

Reuters

Blame him on Moses

Get article background

WASHINGTON'S new International Spy Museum tells a story which fits somewhere between the shagadelic fantasy of Austin Powers and the dreary grind of real-life espionage. Visitors have been queuing round the block since the museum opened on July 19th, making it one of the most popular attractions in a city which already boasts 100 other museums. It aims to give the public a more “realistic” understanding of the intelligence business than Hollywood can offer. Fortunately for visitors, real spying can be pretty glamorous, too.

While touring through history's most famous episodes of cloak-and-dagger, visitors are encouraged to ask themselves: “Could I be a spy?” The first exhibit includes just about every spy gadget known to man (or woman), from the lipstick-case gun to the button-hole camera; another looks back to the origins of espionage, starting with God's order to Moses to send spies into Canaan.

But most of the museum is dedicated to 20th-century spycraft, with a big cold-war exhibit on “The War of the Spies”. A small section on present-day technology, which shows the transition from the cold war to the war against terrorism, reveals how America's enemies have changed over the years.

Both the Central Intelligence Agency and the National Security Agency have museums; but the CIA's is (absurdly, though typically) not open to the public, while the NSA's focuses on the history of cryptology. A cold-war museum will open soon in the Washington, DC, area, which will cover a lot of the same ground. But in the meantime, it has loaned to the spy museum the very mailbox which was used as a drop site by Aldrich Ames to pass on CIA documents to Russia in the 1980s. Also unlike other museums in the city, the spy museum charges a steep $11 for adult tickets.

While more informative than a James Bond movie, the museum is rather drama-heavy. Sexy lady-spies such as Mata Hari and Josephine Baker (“*J'ai un message pour toi*”) feature prominently. Some youngsters will emerge from the museum with dreams of CIA jobs, not realising that most spies now trail their targets through databases rather than dark alleys. Still, if the museum serves as a recruiting tool, that can only be a good thing for America's intelligence agencies. Heaven knows, they need all the help they can get.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Bay Area

Still fizzy

Aug 1st 2002 | SAN FRANCISCO
From The Economist print edition

There was more to the Bay Area's boom than dotcom froth

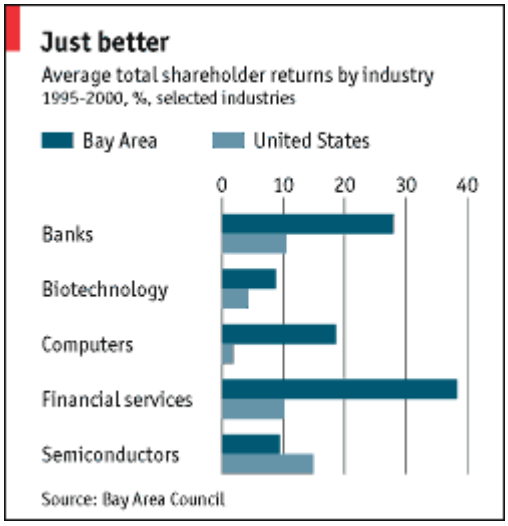
THE grass of South Park, once sprinkled with web-designers from “Multimedia Gulch” on latte breaks, now seems empty. You can stroll into the coolest restaurants in San Francisco and find a table without booking; sometimes you can even park your car downtown. The bursting of the dotcom bubble may have made San Francisco a nicer place to live; but what has it done to its economy?

Talent has always headed for the Bay Area, which encompasses Silicon Valley and Oakland as well as San Francisco. During the Internet boom, the flow became a torrent. Between 1996 and 2000 there was a net migration of 200,000 people into the area, compared with 35,000 in the preceding five years. The number of jobs in the region grew by 660,000 between 1996 and 2000, almost five times as many as in the first half of the decade.

This inrush of talent pushed the average economic output in the region up 10% a year in the second half of the decade, faster than anywhere else in America. By the end of 2000 the economic output of the Bay Area was $65,090 per person, nearly double the national average of $35,402, and $15,796 more than in Boston, its closest rival in productivity.

Some of this was simply because of higher prices in the Bay Area (it is not hard to be a more productive dry-cleaner if your prices are double those anywhere else). But a McKinsey study for the region's governments still reckons that roughly two-thirds of the Bay Area's productivity lead was genuine. It has an unusual number of America's most productive industries; it also has many of the better companies within those industries (see chart); and it boasts the best-educated workforce in the country, with more college graduates and fewer high-school dropouts.

Quality-of-life issues are always hard to measure. But economists have begun to put some numbers on the region's bohemian flair. According to a recent study by Richard Florida of Carnegie Mellon University, there is a close correlation between a region's openness to artists and its prosperity. A large and visible population of creative types—and of homosexuals, according to Mr Florida—points to a tolerant and diverse society of the sort that appeals to the wider class of knowledge-workers who drive modern economies. San Francisco, with its hippies, poets and large gay population, topped Mr Florida's rankings of American cities for overall creativity.



Despite this underpinning, the region has taken a battering over the past year or so. In the first quarter, ending in March 2002, unemployment in the Bay Area was 6.1% (compared with 2.7% a year earlier), thanks to the closure of hundreds of Internet firms and lay-offs at banks, retailers and other firms that had fed the boom. The gloomsters say the city's real competitive advantage—its ability to attract clever people—is being eroded by three things:

•**Housing.** The median house price in the region has almost doubled since 1995, to $402,000 in April, compared with a national figure of $153,300. After a brief shudder last year, house prices remain high. The Bay Area Council reckons the population of the region will grow by 1m over the next 20 years. But so far there are plans to build only 400,000 new houses, 260,000 fewer than will be needed to house that many new people, which means even more people commuting to the region.

•**Travel**. The Bay Area is a laggard in public transport. “Places Rated”, an annual survey of the desirability of different regions, placed it 74th among regions for its transport infrastructure—even lower than traffic-clogged Los Angeles or Houston.

•**Schools.** Nobody really denies that the Bay Area's schools are poor. It got its “best-educated” tag by luring in talented outsiders. But the tightening up of immigration in response to terrorism may restrict this source of talent (unions have anyway been complaining about the H1-B visa programme, which admits skilled workers). And the schools themselves are also a barrier: why come to live in the Bay Area if your kids will get a bad education?

But gay's not gloomy

Trying to solve the problems of growth is not easy. More than 200 jurisdictions—independent cities, nine counties, various agencies—influence decisions affecting housing and transport. Even schooling is balkanised. Companies often have to intervene, for instance by offering cheap loans to their employees to buy houses. There has also been a revival of interest in groups that bring business and politicians together, such as the Bay Area Council.

Yet it would be hard to describe the Bay Area's mood as disconsolate. Most people seem to realise that the dotcom extravaganza was not going to last. There are also plenty of businesses in low-tech fields which regard the bursting of the bubble as good news. During the dotcom boom, the Mission, long a poor district favoured by San Francisco's bohemian set, was the scene of angry confrontations between landlords happy to double their rents for start-ups and the dance-studios, potteries and writers' workshops they were evicting to make room for them.

Miyoko Schinner, the president of Now and Zen Bakery in San Francisco, which sells vegan products such as the “Unturkey”, a Thanksgiving delicacy made from wheat gluten and soya, says that it was harder to raise money when investors were fixated on the Internet. Hiring staff was harder, too: everybody expected stock options, and were haughty to boot. Now that the Internet froth has gone, Ms Schinner may have lost some customers, but she thinks her job has got easier.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Lexington

Rock and remembrance

Aug 1st 2002
From The Economist print edition

A corny Bruce Springsteen record may be the right way to pay homage to September 11th

HOW to make a proper memorial for the victims of September 11th? The question has been nagging away at America, all the more because the political establishment has largely failed to come up with an answer.

Its main effort so far, the development plan produced by the Lower Manhattan Development Corporation, an organisation stuffed with the great and good, was a damp squib. Some 40m people logged on to look at six designs, slowing down Internet traffic throughout the north-east, but they were largely disappointed. The demands of local bigwigs and property developers produced drawings that suggested a suburban shopping mall or another Californian edge city. Revealingly, the only design to elicit any popular enthusiasm was the only one not to include the memorial as an afterthought: a tree-lined avenue leading from the site towards the Statue of Liberty.

The establishment's poverty of imagination stands in sharp contrast with the inventiveness of ordinary Americans. Impromptu shrines and memorials began to appear almost immediately after the disaster. A museum opened in SoHo to display photographs of the collapse and the carnage. People queued for hours to view the collection, appropriately subtitled “A Democracy of Photographs”. The best book so far—the *New York Times*'s collection of obituaries—is affecting partly because it feels so informal. The obituarists deliberately avoided grandeur in favour of homeliness. These are the stories of ordinary lives told through the tiniest personal details.

Which brings us to Bruce Springsteen. His new album, “The Rising”, is his first full-length effort for seven years, his first full collaboration with the E-Street band for 18—and is entirely devoted to September 11th. Already, the hype is ubiquitous. The increasingly stockbrokerish 52-year-old graces the cover of *Time* magazine (“Reborn in the USA”) and is trotting around the talk shows. Yet more than celebrity-worship is at work. An astonishing number of Americans, particularly in the blue-collar Springsteen heartlands around New York, are using his songs as a vehicle for reflecting on the events of 11 months ago. “The Rising” is becoming part of a national process of catharsis.

Mr Springsteen has that rare gift of being able to accuse America of every sin under the sun while at the same time proclaiming it the best damn

Which is as it should be. One poorly kept secret of every Upper East Side dinner

party since September 11th is how few of the victims were members of New York's upper crust. Most of the up-market investment banks had moved out of the World Trade Centre long before. Only 330 known victims were from Manhattan; the worst-hit communities were solid working-class districts that turn out policemen and firemen. Mr Springsteen's home county, Monmouth, lost 158 people in the towers, more than any other county in New Jersey. As the *New York Times* obituaries show, many of the victims were fans of his; their families played “Thunder Road” or “Born in the USA” at their memorial services. Mr Springsteen says it was the discovery of this link with the victims that led him to make “The Rising”.

A patriot in blue jeans

With many pop stars, that would be the moment to reach for the sick-bucket. The working-class hero pokes his snout out of his mansion to make yet another fortune out of the misfortunes of blue-collar workers (with the help of a foreign record-label, Sony). But Mr Springsteen is an unusual mixture of patriot and critic. He was famously furious at Ronald Reagan's attempt, back in 1984, to turn “Born in the USA” into his re-election anthem: the record's theme was the downsizing of blue-collar America. Yet he is also a passionate nationalist. He has that rare gift of being able to accuse America of every sin under the sun—from imperialism to profiteering—while at the same time proclaiming that it is the best damn country in the world.

Mr Springsteen's past odes to blue-collar America were as bleak as rock music gets. They were about people who live for a few hours on Friday night, about factories being closed down and workers being thrown on the scrap heap. “The Rising” is a much more optimistic portrait of the same people. This time, they are not the helpless victims of forces outside their control. Nor are they running away from anything. They willingly lay down their lives for their fellows. Far from being an endangered species, America's blue-collar workers were proved on September 11th to be the very essence of their country.

“The Rising” is not great art. Even the album's best song, “You're Missing”, a catalogue of absences (a coffee cup on the counter, a newspaper on the doorstep) is a little schmaltzy. Political correctness raises its obligatory head: one song is about a love affair between an American and a Middle Eastern Muslim, complete with Pakistani musicians. And it is being sold with a heavy dose of sugar-coated earnestness that many non-Americans may find indigestible.

Yet even its defects seem somehow appropriate. America is a proudly popular civilisation: a country driven by the aspirations of ordinary people rather than the designs of elites, a country that holds celebrities in higher esteem than intellectuals, a country whose inhabitants measure their lives with rock songs. Mr Springsteen has captured the basic emotion: a combination of grief for the lives lost with a resolute (if sometimes corny) sense that America will conquer adversity.

It is also right that “The Rising” should be a commercial enterprise. For the most part, Americans are untouched by the European shame about money-making. (The current “anti-business backlash” is a backlash against cheating, not honest business.) It seems strangely appropriate that a record about the destruction of the main symbol of global capitalism should be marketed by a Japanese multinational. One day the American establishment will find something to equal the Vietnam War Memorial in Washington, DC, or the Civil Rights Museum in Memphis. Until then, Mr Springsteen will do nicely.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

South America's economies

Panic comes calling

Aug 1st 2002 | SAO PAULO
From The Economist print edition

The main worry is Brazil. But might Uruguay be first to default?

EPA

Get article background

JUST three months ago, international economic policymakers were congratulating themselves that Argentina's debt default had not infected its neighbours' finances. Yet this week investors seemed to view South America as standing on the brink of a chain of defaults of the kind that whipped through the region in the 1980s. As Brazil's currency and bonds plunged, officials rushed to Washington to seek further help from the IMF. Uruguay, awaiting the Fund's response to a similar plea and faced by a stampede of panicking depositors, closed its banks until August 5th. Across Latin America, from Mexico to Colombia, bonds and currencies have weakened. Is the panic justified?

The big fear concerns Brazil, because of its size and its presidential election in October. Its currency, the *real*, has lost a third of its value since April, when investors began worrying that one of several leftish presidential candidates might win. By mid-week, it had sunk to 3.47 to the dollar.

The *real*'s weakness adds to the country's debt burden. Brazil's public foreign debt, at $75 billion, is both fairly small and long-term. But a third of the public debt in local currency (which totalled 654 billion reais at the end of June) is dollar-indexed. So the country's total debt burden has risen to almost 60% of GDP, from 52.5% a year ago, according to the Central Bank. Add in the soaring risk premium on Brazil's bonds, and some analysts now fear that, unless there is a big turnaround, the debt may become unserviceable.

So far these fears are being voiced more openly outside Brazil than within it. “Brazil is on the path towards a debt default,” says David Malpass of Bear Stearns, an American investment bank, though he adds that there is still time for it to turn off that path, using more vigorous measures to prop up the *real*. Walter Molano, an occasionally wise investment analyst from BCP Securities, an American firm, says Brazil should “throw in the towel” now and start “an orderly restructuring” of its debt before things get worse.

Such arguments were last heard in 1998, before Brazil's move to a floating exchange rate, yet proved wrong. So they will again, says Mailson da Nobrega, a former finance minister. While Argentina, like Uruguay, borrowed mostly from foreigners, most of Brazil's public debt is with more biddable local investors; in the past, they have reaped high returns by sticking with government bonds. So far only a few have switched to cash. But the government must still roll over 117 billion *reais* of domestic debt in the rest of this year.

The Central Bank says that Brazil's ratio of debt to GDP would start falling if the economy grew at an annual rate of 3.5%, real interest rates were 9% and the government stuck to its target of a primary fiscal surplus (ie. before interest payments) of 3.75% of GDP. Such a scenario is plausible, says Marcelo

Carvalho, an economist at Bank of America in Sao Paulo. But in the past five years average growth has been lower, and real interest rates higher.

Brazilian firms are already facing difficulties in rolling over their foreign debts. These total $87 billion and fall due at a rate of around $2 billion a month. To repay these loans, companies are buying dollars, adding to pressure on the *real*. But even in the worst case, Brazil's foreign reserves of $25 billion are more than enough to cover its need for foreign finance this year, says Mr da Nobrega. He dismisses speculation that the government might force the private sector to hand over its currency earnings, as Argentina has done.

To help the government shore up its defences, the IMF could relax the conditions of its existing loan to Brazil, such as by letting the Central Bank spend more of its reserves to defend the *real* (at present, these must not fall below $15 billion). The bank has been selling dollars to the tune of $50m a day, to little effect so far.

But the big unknown is what happens after December 31st when President Fernando Henrique Cardoso steps down. That is why Pedro Malan, the finance minister, would like the main presidential candidates to support a new loan agreement with the IMF, for perhaps $10 billion. But the two opposition contenders who lead the opinion polls, Luiz Inacio Lula da Silva and Ciro Gomes, have come out against the idea. “No way”, said Mr Gomes.

Without a commitment from the candidates, the IMF is unlikely to agree to a new loan. The United States has been lukewarm—though the White House this week distanced itself from comments by Paul O'Neill, the treasury secretary, opposing further aid. But having raised investors' hopes of a new loan, dashing them could prove costly for the government.

Meanwhile, the government must hope that the fortunes of its presidential candidate, Jose Serra, start to improve. That could happen if he makes good use of his dominant share of free television slots, due to start in mid-August. But Mr Serra could also be hurt if the market panic translates into higher unemployment.

Uruguay's problem

And Brazil could be hurt, too, if Uruguay defaults on its debt. Uruguay's problems have less to do with politics—and much to do with “contagion” from Argentina. Since March, Uruguay's peso has lost roughly half its value. That has sent the peso cost of its public debt soaring: the ratio of debt to GDP is now close to 100%. And since most bank deposits are in dollars (many of them held by Argentines, whose accounts at home are frozen), the run on the banks is fast draining the country's foreign reserves. So Uruguay risks running out of cash to make debt payments.

Prior to this week's bank holiday, Uruguay's reserves stood at just $655m, after falling at a rate of about $500m a month this year. Officials were talking to the Fund, and others in Washington, to try to secure the immediate disbursement of $1.5 billion still outstanding from an IMF loan arranged earlier this year. But even this would only be a brief respite, unless depositors entrust their money to the banks. Otherwise, the chances of avoiding a debt default look slim. In Uruguay, as in Brazil, confidence is in short supply.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics in Colombia

Uribe's hour

Aug 1st 2002 | BOGOTA
From The Economist print edition

The new president faces a stiff battle over political reform

Reuters

Get article background

BEHIND closed doors, with military aircraft patrolling the skies and thousands of soldiers guarding the streets, Alvaro Uribe is due to be sworn in as Colombia's president on August 7th. It will be surprising if the inauguration passes without a guerrilla attack somewhere in Colombia. For Mr Uribe has a clear mandate to improve security, take the fight to Colombia's rebel armies and reform the country's institutions. And all the signs are that in taking on one of Latin America's toughest jobs, he will plunge at once into some bruising political battles.

From Andres Pastrana, his Conservative predecessor, Mr Uribe inherits failed negotiations with two armies of left-wing guerrilla groups, a teetering economy with an unsustainable fiscal deficit, and still unchecked illegal-drugs production. All are linked, and will get Mr Uribe's attention.

But first he wants to change Colombia's political institutions, and especially the corruption, vote-buying and cosseted excess of its politicians. He wants a slimmed-down single-chamber Congress, stronger parties, and an end to the scam which sees election-winners ceding their seats to alternates who also qualify for generous salaries and pensions. Immediately after taking office, Mr Uribe's interior minister, Fernando Londoño, is expected to send a bill to Congress calling for a referendum on these proposals. For the president, the text of the referendum is non-negotiable. He wants a new congressional election to follow a successful vote.

The risk for Mr Uribe, an independent Liberal, is that this issue could tie up Congress for months. He starts with a legislative majority, but it could prove to be a fragile one. And Mr Londoño is the most controversial member of a cabinet otherwise stuffed with talent. He has powerful enemies from his previous career as a well-known lawyer. His critics claim he acted improperly in buying a large block of shares in an energy privatisation, though he denies any wrongdoing.

Mr Uribe also wants a radical purge of the public administration, just as he did when he was governor of Antioquia province in the mid-1990s; there, he insisted on deep cuts in the state payroll. Now, several ministries and government departments are to be merged or axed. With unemployment at 17.5%, those affected are unlikely to go quietly.

Spending cuts are needed both because the public finances are parlous and because Mr Uribe is committed to a costly military build-up and more social spending. Roberto Junguito, Mr Uribe's experienced choice as finance minister, says next year's budget will be austere. He wants Congress to approve tax increases worth some $800m a year. Wall Street analysts see a pending pension reform as a test of Mr Uribe's ability to balance the books. But the battle over political reform may diminish Congress's appetite for this.

In the ten weeks since his election victory, Mr Uribe has carried out an exhausting round of international visits. One aim has been to persuade the IMF and other international lenders to treat Colombia's economy as a war victim. Rudolf Hommes, a former finance minister and an adviser to Mr Uribe, hopes for international money to help sacked government workers, for example.

But Colombians will judge Mr Uribe mainly on his pledge to crack down on the guerrillas. He has yet to spell out the details of his plan to create a militia of 1m civilians to help the armed forces. Mr Londoño has said the government will seek constitutional amendments to allow martial law and states of siege—a move that will be opposed by human-rights groups. Marta Lucia Ramirez, a capable former trade minister who has been named as defence minister, says she is thinking about calling up army reservists. Mr Junguito wants to impose war bonds on the grumbling private sector.

Such measures would soften American critics who say that Colombia is relying on foreigners to pay for its wars. Whether they will also force the guerrillas to accept Mr Uribe's firm terms for new peace talks will decide the fortunes of his presidency.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Politics in Ecuador

Taken for a ride

Aug 1st 2002 | QUITO
From The Economist print edition

The corruption of an austerity drive

THE economy has barely recovered from a wrenching collapse. Having adopted the dollar as the currency, the government of President Gustavo Noboa has tried to push through reforms to ensure that growth can be sustained. But while Ecuador's president seeks a new $240m loan from the IMF and calls for fiscal austerity, his officials have not practised what they preach.

In June, the finance minister, Carlos Julio Emanuel, resigned after it emerged that his ministry had transferred about $400m in unbudgeted funds to local governments in return for bribes of up to 38% of the amount handed over. At least half of Ecuador's municipal and provincial governments seem to have been involved, and officials from three other ministries and several congressmen grabbed pay-offs. Mr Emanuel denies any wrongdoing, and claims that the president knew about the transfers.

Mr Noboa countered that it was the bribes (of which he says he was ignorant), not the transfers, that were illegal. The president seized a finance-ministry computer carrying documents relating to the scandal, but handed it over to investigators several days later. He, too, denies any wrongdoing.

Mr Emanuel is not the first senior official to be accused of corruption in Ecuador. The past three presidents have all been tainted. One, Abdala Bucaram, was ousted by Congress after corruption allegations, and fled to Panama. His replacement, Fabian Alarcon, was jailed in 1999 for fraud. And his elected successor, Jamil Mahuad, who was ousted by a coup in January 2000, accepted campaign contributions from a corrupt banker.

Congress is no better. Mr Noboa recently complained that some of its votes are “for hire”. The politicians' larceny is matched, on a smaller scale, by policemen, judges and petty officials, who routinely demand bribes. Corruption costs Ecuador $2 billion (11.2% of GDP) a year, according to an estimate by Quito's chamber of commerce.

What can be done? Clearer laws and less bureaucracy would reduce the discretionary power of officials. And some exemplary punishments would help. But who will impose them? Ecuador's many honest politicians and businessmen have shown little interest in a clean-up. A presidential election is due on October 20th. According to polls, the front-runners include two former presidents and Ecuador's richest businessman. Not much sign that a new broom will soon be sweeping things clean.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Atlantic Canada

A gleam in the mist

Aug 1st 2002 | OTTAWA
From The Economist print edition

Refounding Newfoundland's economy

THE people of Newfoundland, surviving on the rocky eastern tip of Canada, are accustomed to economic setbacks. But three shafts of sunshine have recently cut through the Atlantic mists. An oil consortium is going ahead with a third large offshore field east of the island. Newfoundland has won a battle with Nova Scotia for the lion's share of oil and gas deposits in the Laurentian sub-basin to the south. Best of all, the province has signed agreements to exploit one of the world's richest nickel deposits, at Voisey's Bay in Labrador.

For decades, young Newfoundlanders have migrated to Toronto as the province's economy languished. Desperate to halt the exodus, the province's political leaders struck some bad deals: a hydroelectric scheme from which neighbouring Quebec took the profit, an oil refinery that rusted into disuse, fish plants that collapsed when the cod disappeared a decade ago, and huge hydroponic greenhouses which grew cucumbers at a loss.

A turning point of sorts came in 1997 when oil began to flow from the Hibernia field, 200 miles (320 km) south-east of St John's, the province's capital. A second field nearby has made Newfoundland Canada's second oil producer, after Alberta. In March, Husky Energy, together with state-backed PetroCanada, agreed to invest more than C$4 billion ($2.5 billion) over 15 years in White Rose, a third field. But critics say that the oil wealth hardly flows beyond St John's. Over the past five years, the province's population has fallen by 7% (to 513,000). Outside the capital, one out of five workers is unemployed.

The provincial government hopes that the Voisey's Bay nickel project will stop the rot. In June, after years of talks, the province and two native peoples (the Inuit and the Innu) at last ratified a contract to develop the mine with Inco, a mining firm. It had paid C$4.3 billion for the property in 1996. But, when nickel prices tumbled, Inco was reluctant to commit itself to building a smelter at Argentia, a former American naval base near St John's, as the provincial government wanted.

Now a deal has been struck: nickel mining will start at an open-pit site in 2006, while a pilot processing plant is built at Argentia. Newfoundland will allow concentrate to be shipped to smelters in central Canada in the early years, provided that ore is imported later from Inco's other mines to be processed in a full-scale plant at Argentia (to which the federal government will contribute C$150m). Later, too, an underground mine will be built.

Over the next 30 years, Voisey's Bay should provide hundreds of permanent jobs and some C$11 billion in revenue for the provincial government. The province in turn will pay C$255m to the 5,000 Inuit, who claim the land around the mine. They and the 1,500 Innu will take a percentage of the mine's profits. Newfoundlanders will hope that, this time, they have struck lasting wealth.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Terror in South-East Asia

The elusive enemy

Aug 1st 2002 | MANILA, SINGAPORE AND JAKARTA
From The Economist print edition

The second front in America's war on terror is yielding limited results

AP/Reuters

THE arrival in January of 1,200 American soldiers in sleepy Basilan island in the southern Philippines drew attention to a wider threat of international terrorism in South-East Asia. Abu Sayyaf, a militant group the Americans have been helping to fight, is just one of many in the region, after all. Its founder, Abubakar Janjalani, trained with Osama bin Laden in Afghanistan. Two of the September 11th hijackers had spent time in Malaysia. Ramzi Yousef, the mastermind of the first bombing of the World Trade Centre, in 1993, used the Philippines as a base. It has been suggested that al-Qaeda might try to regroup in South-East Asia after the destruction of its headquarters in Afghanistan.

Hence the speedy dispatch of American troops. Hence too the current South-East Asian tour of Colin Powell, the American secretary of state. On August 1st, he signed an agreement to co-operate against terror at the ASEAN Regional Forum, a South-East Asian security grouping.

But fighting terror in South-East Asia, as everywhere, is a complicated task. Distinguishing between local and international terrorist outfits, or between formal organisations and bands of like-minded individuals, is next to impossible. Finding the people involved is even harder. Regional governments have proved as quick as their counterparts around the world to use the label “terrorist” for their own political purposes, and as prickly about doing America's bidding. That said, however, the evidence uncovered so far suggests that, although al-Qaeda's influence stretches far and wide through South-East Asia, the region makes no better a base for terrorism than Hamburg or Boca Raton.

Take Basilan, where American and Philippine troops formally concluded six months of joint exercises on July 31st. A few American soldiers will remain to supervise the completion of humanitarian projects on the island. But American special forces, who came to “train, advise and assist” their Philippine counterparts hunting for Abu Sayyaf, have all gone home—without achieving any clear result.

To be fair, the Filipinos do seem to have made some headway under American tutelage. They regularly manage to track down and kill small bands of Abu Sayyaf fighters, a relative rarity before the Americans arrived. They also managed to locate the three hostages (two of them American) whom Abu Sayyaf had been holding for over a year, though two of them died in the rescue operation.

Nonetheless, Abu Sayyaf remains a going concern. The Philippine army says the number of its active members has fallen from 2,000 to 200 over the past year. But deserters, rather than captives or casualties, account for most of the difference. Although they have gone to ground for the time being, they may well live to fight another day. Four of the group's five most senior leaders remain at large.

Besides, it was never really clear what the campaign against Abu Sayyaf had to do with the broader war on terror. It is true that in the early 1990s, some members of the group are believed to have met Mr bin Laden and Mr Yousef. But Donald Wurster, the commander of the American troops on Basilan, admits that there is no evidence of any recent contacts with al-Qaeda.

This is not to suggest that international terrorism does not present a threat in the Philippines, or indeed in South-East Asia as a whole. On the contrary, recent bombings in the Philippines and Indonesia, and a

thwarted one in Singapore, vividly demonstrate the danger. They also provide grounds for optimism, insofar as they prove that terrorism is a local, as well as an American, problem, and therefore give local authorities a powerful incentive to co-operate in the war on terror. What the example of Basilan does illustrate, however, is that even with local co-operation, identifying and striking at terrorist targets is no more straightforward in South-East Asia than anywhere else.

The biggest breakthroughs in the fight against terror in the region have come by chance, or the would-be terrorists' incompetence. Philippine policemen stumbled on to schemes to assassinate the pope and bomb 12 American aircraft thanks to a fire in Mr Yousef's flat in Manila in 1995. Last year, Indonesian police caught a Malaysian militant after the bomb he was carrying exploded, blowing off his own leg.

But authorities in the region have been assiduous in following up what few leads they have. Singapore foiled a plot to bomb the American embassy, among other targets, on the basis of a videotape and notes found by American forces in the rubble of an al-Qaeda leader's house in Afghanistan. Malaysian investigators cracked a local cell using documents found in America in the flat of Zacarias Moussaoui, a suspected accomplice in the September 11th attacks. One of the Malaysians arrested as a result, it turns out, had played host on different occasions to two of the hijackers, as well as to Mr Moussaoui and the suspected mastermind of the bombing of the USS *Cole* off Yemen in 2000.

The information garnered from these arrests has helped to build a picture of the terrorist network in the region. As elsewhere, local terrorists seem to have drawn inspiration, and perhaps also money, from Mr bin Laden. But they did not build a rigid hierarchy. Instead, a mysterious figure nicknamed Hambali seems to have acted as a point-man, travelling from country to country, encouraging local militants, setting up cells and helping fellow terrorists who passed through his territory.

The overwhelming majority of the attacks his network sponsored were local, or at most regional, in nature. In the Philippines, his subordinates bombed a bus, a train, a petrol station and a cargo warehouse in Manila, and may also have been involved in a series of explosions in the southern city of General Santos—all in revenge for the government's campaign against Muslim separatists. In Indonesia, they bombed churches, a shopping mall and the residence of the Philippine ambassador. Even in Malaysia, police say local militants were hoping to overthrow the government, not launch terrorist attacks against Americans, despite their connections to al-Qaeda. Only in Singapore is there any evidence of plots against western targets.

This focus on strictly domestic concerns has done much more to spur the local authorities into action than American prodding ever could have done. Security is one of the most pressing issues in the Philippines, and Gloria Macapagal Arroyo has made a campaign to restore it the centrepiece of her presidency. Mahathir Mohamad, Malaysia's prime minister, is keen to expose Islamic militancy in the hope of frightening voters away from PAS, an Islamic opposition party.

Megawati too

Even in Indonesia, where Megawati Sukarnoputri, the president, seems insecure about her support among devout Muslims, the authorities have been co-operating with America behind the scenes. The leader of Indonesia's intelligence service is detested by Muslim radicals as “the butcher of Lampung”, a nickname he earned when a unit he commanded launched a bloody raid on the headquarters of a Muslim sect in 1989. In January, the Indonesian authorities secretly bundled a Pakistani suspect on to an American aircraft, which took him to Egypt for interrogation. Something similar seems to have happened in June, when a Kuwaiti arrested in Indonesia is said to have turned up at America's detention centre at Guantanamo Bay, in Cuba. When asked if there have been other such incidents, western diplomats smile mutely, not wishing to embarrass their hosts.

If anything, local governments have been over-zealous in their pursuit of terrorists. The Indonesian deportations, although doubtless helpful to America, are of dubious legality. Malaysia, for its part, has used a repressive colonial-era law to lock up suspects indefinitely without trial. Although some of those imprisoned have clear ties to al-Qaeda, others are prominent members of the political opposition. In February, the Philippines announced with great fanfare the detention of a terrorist holding no fewer than 104 passports, only to discover that he was a travel agent collecting visas for Muslim pilgrims.

Security officials all over South-East Asia are trying to pass off local militants as international terrorists. The assassination of several policemen in southern Thailand, to take the most improbable example, has been blamed on al-Qaeda.

In reaction, the Free Aceh Movement, an Indonesian separatist group, is anxious to avoid association with international terrorism, for fear of losing the degree of international sympathy it enjoys. Even Laskar Jihad, Indonesia's most violent Muslim group, has taken pains to denounce Mr bin Laden as a misguided renegade. The campaign against Abu Sayyaf has impressed on militant groups throughout the region that even distant ties with al-Qaeda are a ticket to extinction.

But perhaps for that reason, and alarmingly, South-East Asian terrorists seem to consider non-Muslim countries just as good a refuge as Muslim ones. Local al-Qaeda operatives appear to have moved as freely through non-Muslim countries such as Thailand and Australia as they did through Malaysia and Indonesia. They plotted their most elaborate attack in Singapore, where Muslims are a small minority. In the 1990s, Mr Yousef—one of the world's most wanted men—hid in Catholic Manila, not in the Muslim islands of the southern Philippines.

A combination of inefficient—and underfunded—security forces, porous borders and lawless sea-lanes throughout the region make it relatively easy for terrorists to slip back and forth undetected. The Indonesians, for instance, claim they did not even know that militants were running a training camp, since abandoned, on Sulawesi. No wonder, then, that the pact Mr Powell and his counterparts signed concentrated on intelligence co-operation and border surveillance, while avoiding the subject of further troop deployments.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Japan

Backtracking Koizumi

Aug 1st 2002 | TOKYO
From The Economist print edition

The deficit may be the least of the prime minister's worries

Get article background

AP

Much to regret

CUT taxes now and pay later. That was the message coming from Junichiro Koizumi late last week as he continued to push tax-cut plans for Japanese companies. The prime minister was making his case in the final days of the disappointing Diet session that ended on July 31st, just as all eyes began to focus on the autumn session and a looming wrangle over next year's budget. This week, however, as he prepared to outline some of his budget plans on August 2nd, the reality of his weakened position hit home.

Apart from the fiscal battles, Mr Koizumi will also be reshuffling his cabinet (he hinted again this week that he will do so in late September) and trying to contain the damage from his party's efforts to postpone limits on bank-deposit insurance, which are due to take effect in April. The prime minister made yet another huge concession this week, when he agreed to look for ways to water down the deposit-insurance caps, even though they are a crucial means of injecting some discipline into the banking system.

With so many difficulties, the ¥30 trillion ($250 billion) borrowing limit, which at one time formed a major plank in Mr Koizumi's reform platform, now seems the least of his worries. He has already been relying on accounting gimmicks to stay within the limit. After passing the current budget this spring, he also began to hint that future budgets should focus more on spending constraints than the amount of borrowing. Now, with the autumn tax clash approaching, Mr Koizumi would be happy to abandon the pretence of a borrowing limit entirely, if only he can get his way on taxes.

Even that will be difficult. The tax cuts he wants in exchange hinge on a sharp reduction in the effective tax rates paid by Japanese corporations, along with cuts in the inheritance, gift and property taxes that combine to distort the property market. Mr Koizumi's private-sector advisers think the plans they offered him last week would cut tax by over ¥1 trillion a year. Mr Koizumi is caught, however, between anti-reformers in his own Liberal Democratic Party (LDP) and the perennially tight-fisted finance ministry.

Though hardly concerned with deficits, Mr Koizumi's LDP rivals are resisting his tax cut because they fear it will lead to even tighter constraints on spending than the prime minister has already wrested from them, including a ¥1.1 trillion cut in general expenditures this year. Yet, though the finance ministry shares some of Mr Koizumi's desire to rein in spending, its ultimate goal is quite different from his. The ministry's bureaucrats worry about Japan's debt, which is approaching 140% of GDP and growing rapidly as the country runs 8% annual deficits in an ageing, deflationary economy. Successive downgrades by international ratings agencies have been giving them fits.

Although Mr Koizumi has had close ties to the finance ministry, upon taking office he was initially more concerned with overhauling expenditures, and their effect on Japanese politics, than with the size of the fiscal balance itself. The LDP old guard continues to use government cash to bolster support and stave off other structural reforms. To overcome that resistance, Mr Koizumi was originally happy to appeal to the finance ministry since his limit on borrowing helped win its support for a lower-spending budget.

As Mr Koizumi has lost momentum, his LDP opponents have regained confidence. In the Diet session that ended on Wednesday he managed to win approval for only one-and-a-half of the four big initiatives he

hoped to pass.

As he prepares for this autumn's budget deals, therefore, the prime minister will have to disappoint the finance ministry if he hopes to win the battle with his party. Do not count on it. On July 30th the finance minister, Masajuro Shiokawa, said that revenues were projected to fall “sharply”, even without any tax cuts. If Mr Koizumi is to gain leverage in dealing with his party and the bureaucrats, he will have to score some points through his cabinet reshuffle—either with Japanese voters, or with the people he is negotiating against.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

North Korea and America

Strange meeting

Aug 1st 2002
From The Economist print edition

And still far from a thaw

Reuters

A good meeting, said Powell

Get article background

IT MIGHT only have lasted 15 minutes, but the informal chat on July 31st between Colin Powell, the American secretary of state, and his North Korean counterpart, Paek Nam Sun, is still the highest-level encounter between the two countries since the dying days of the Clinton administration. Then, Madeleine Albright flew to Pyongyang in the hope of clinching a deal on long-range missiles, but failed. What did her successor hope to gain from his meeting on the margins of the regional forum of ASEAN, the Association of South-East Asian Nations, in Brunei?

Probably nothing much more than to sound the North Koreans out. Since George Bush took office last year, there has been virtually no dialogue at all between America and the country it subsequently branded part of the “axis of evil”. A defiant North Korea has retreated into its shell, ostensibly because it feels insulted, but more probably because America has insisted, rightly, that any serious dialogue between the two countries would need to tackle a more extensive list of issues than missile proliferation alone. This is what makes the North's eagerness to talk to the country its official news agency was this week still calling the “kingpin of evil” so intriguing.

There is no question that the North Koreans have launched what, for them, amounts to a charm offensive. Last week, out of the blue, they announced that they “regretted” a naval clash late in June which left some 50 sailors dead or injured. True, they did not apologise for violating the South's waters, or for opening fire in response to the South Korean vessel's warning shot. But it was a start. Then they offered to restart talks with the South, which were accordingly due to resume on Friday. Now comes this overture to the Americans: the meeting in Brunei was at Mr Paek's request, not the other way around.

The North must know that the Bush administration has not weakened its position that any talks between them must include not just North Korea's missile programme, but also confidence-building measures for defusing conventional-weapons tension along the Demilitarised Zone, where hundreds of thousands of men face off against each other. And America also wants to see North Korea show how it plans to honour a 1994 agreement that offered it two nuclear reactors and fuel oil in return for a verifiable end to its plutonium production and a return to full compliance with the Nuclear Non-Proliferation Treaty—as well as agreeing to better ways to monitor food aid.

This lengthy list has caused North Korea to bridle, until now. So the overtures to Mr Powell could signify that North Korea—whose economy is desperately weak, despite evidence that some experimenting with market reforms may be going on—is ready to make some concessions to the Americans. But, as ever, it is difficult to be sure. A visit to Pyongyang by James Kelly, an assistant secretary of state, had been on the cards until the naval clash scuppered it a month ago. Some analysts believe that the clash was engineered by hard-liners to secure that result. The instability for which North Korean diplomacy is noted is sure to reassert itself before long.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Asia's poor

Miracle incomplete

Aug 1st 2002
From The Economist print edition

But many have benefited

IN THE 1960s, though nowadays it is hard to believe it, Asia's income per head was less than that of Africa. The wars of the post-colonial era had yet to devastate the African continent, whereas many Asian countries had had only a decade or so of recovery from their own catastrophes; China embarked on its disastrous Great Leap Forward as late as 1958. Now, Asia's per capita GNP is double that of Africa—thanks not just to peace, but to market reforms, export promotion and investment in education.

Yet Asia, which has 3.3 billion people, or more than half the world's population, is also home to a disproportionate share of its poor. According to new figures from the Asian Development Bank (ADB), 75% of the world's poor are Asian.

Still, Asia's poverty rate is falling; the report says that it has gone down pretty spectacularly from 65% in 1960 to 17% in 2000. And it finds huge improvements in indicators like infant mortality (down from 141 per 1,000 births in 1960 to 48 in 2000) and life expectancy (up from 41 years to 67 over the same period). If ever proof were needed that the benefits of sound economic policies can and do trickle down, Asia provides it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Indonesia

Justice on trial

Aug 1st 2002 | JAKARTA
From The Economist print edition

Only 15 years for organising a judge's murder?

Get article background

IT WAS arguably Indonesia's trial of the century, and the verdict surprised many. The 15-year prison term handed down on Hutomo Mandala Putra, better known as Tommy Suharto, on July 26th for murder looked tough. It certainly would never have happened when Tommy was a spoiled young playboy and his father was president. But does this mean that the winds of change are at last blowing through the Indonesian legal system? Alas, not quite.

The chief judge, Amiruddin Zakaria, and his four colleagues certainly took a brave and risky decision by going ahead with the verdict despite Mr Suharto's absence from court, a move which would normally be considered against the criminal code. And they carried on despite a walk-out by the defence team.

But why did Mr Suharto get only 15 years? The two men who actually carried out the killing of a Supreme Court judge, Syafiuddin Kartasasmita, got life sentences. Yet the man convicted of organising the killing got less. In Indonesia, a life sentence means a year for each year you have lived when convicted. Mr Suharto, who is 40, might never have come out.

Despite the illness he claimed to have suffered on the day of his sentencing, Mr Suharto was playing badminton in Jakarta's Cipinang jail three days later. He and his lawyers were pondering an appeal. A group of legislators even dropped in to see him, strange treatment for a convicted murderer. Among the visitors was Setya Novanto, a key figure in the 1999 Bank Bali scandal.

Only a few days before the verdict, a visiting UN rapporteur on legal affairs poured scorn on the Indonesian legal system. Over the past few years, bizarre ruling has followed bizarre ruling. One of the strangest was the recent decision by a Jakarta court to wind up an insurance firm, Manulife Indonesia, a unit of a Canadian firm, Manulife. Though solvent, the firm was declared bankrupt for not paying a 1999 dividend. Manulife happened to have a long-standing dispute with its former Indonesian joint-venture partner, which it bought out after the partner got into trouble during the economic collapse of 1997 and 1998. Investigators are now looking into the bank accounts of the judges who took the decision.

According to Hendardi, an Indonesian human-rights lawyer, the Suharto verdict is no indication of reform. It is simply a safe sentence for the judges. Judge Kartasasmita did the unthinkable in 2000 and ordered an 18-month jail sentence on Mr Suharto in a separate land-swap corruption scandal. Could his violent death have affected the judges' decision? Mr Suharto has a reputation for violence. The weapons seized in two raids on his hideouts during his year-long flight from the law were enough to equip a small army.

But public anger and general detestation of the Suharto family are so great that an acquittal would have been equally dangerous. And to do nothing was hardly on the cards. Had the verdict not been read out by August 3rd, the length of time legally permitted to keep Mr Suharto in custody would have expired and he would have had to be released.

The affair may not be over, even though, to general surprise, Mr Suharto said on August 1st that he would not be appealing. But it is an open secret that in Indonesia money talks, and Mr Suharto has plenty of it. One of his lawyers has been accused of trying to bribe a witness during the trial. Most Indonesian judges are lucky if they earn $400 a month, yet many of them drive around in luxury cars. Mr Suharto's original corruption conviction was overturned by the Supreme Court a few months ago, in a ruling regarded as highly suspect. Indonesia, some say, is a country where everything is legal, if you can

pay.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

New Zealand

Helen of ploy

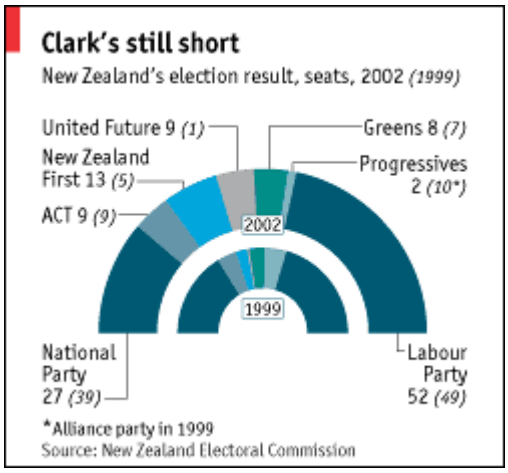
Aug 1st 2002
From The Economist print edition

But she didn't get the absolute majority she'd been manoeuvring for

MUCH cynicism greeted the announcement in June by Helen Clark, New Zealand's Labour prime minister since 1999, of a snap election for July 27th, four months early. Miss Clark gave as her reason the split in Labour's coalition partner, the left-wing Alliance, over support for the war against terrorism. Both of the Alliance's factions, though, had promised to continue backing Labour.

The timing, the cynics reckoned, had much more to do with Labour's enormous opinion-poll support (50%-plus) on the back of a strong economy—both predicted to decline in tandem. Miss Clark made it quite clear she wanted an absolute majority under New Zealand's newish system of proportional representation, which gives electors two votes, one for a party and one for a representative.

Miss Clark's move failed. On the night, Labour won 52 seats in the 120-seat parliament (see chart), along with two seats from one Alliance faction, the Progressive Coalition. A small number of votes remain to be counted, but only two seats are liable to change hands. Still, the centre-right National opposition, once deemed the "natural" government of New Zealand, crashed to its worst-ever result. By judicious negotiation, Labour may be able to exercise de facto majority control.



Among the bit-players, the Greens and the free-market Association of Consumers and Taxpayers (ACT) kept their share of the vote. The anti-immigrant New Zealand First party and the centrist, pro-family United Future both did well—the latter surprising everybody as its seat-count surged from one to nine. ACT will ally itself with National, but NZ First is probably too mistrusted for anyone to deal with. Labour, for its part, is negotiating with both the Greens and United Future for their support.

Unfortunately, Labour is having a row with the Greens (who backed it in the previous parliament) over genetic engineering (GE). Last year, a Royal Commission imposed strict controls on field trials and a moratorium on commercial release of GE organisms until October 2003. In May, the Greens threatened to bring the government down if the moratorium was ended.

Miss Clark took a hard line, saying she would not let "the tail wag the dog", only to see the Greens' support promptly surge. Then a scandal dubbed "Corngate" emerged, alleging a government cover-up of an accidental release of GE material in 2000. The Greens' flat vote shows that Miss Clark read public opinion accurately. But she may yet have to offer the Greens an extension of the moratorium.

She may also be hoping to play the Greens and United Future off against each other: she needs the support of only one of them for a workable majority. But this is tricky: United Future's leader, a former Labour man, Peter Dunne, is cannily seeking his own deal with the Greens. They already agree broadly over GE. Miss Clark will need a delicate touch.

Labour has managed well economically, and most businessmen feel easy with it. But it inherited a strong economy in 1999, and then both commodity prices and exchange rates went its way. Now dairy prices are falling (thanks in part to European and American subsidies) and the New Zealand dollar is firming up.

Still, the finance minister, Michael Cullen, hopes to boost growth from the usual 2-3%, up to 4%, by

spending more on research and development and education. The voters like this, and Miss Clark's job seems secure. But the poll showed that voters also like the two-vote system's potential to keep governments in check. Miss Clark should take nothing for granted.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

China

Bureaucrats and bikes

Aug 1st 2002 | BEIJING
From The Economist print edition

Good idea? Ban it

FOR many people in Beijing, getting round the city can be a gruesome ordeal. Motorcycles are all but banned. This leaves most Beijingites with little choice between a woefully inadequate public transport system and bicycles—still the most common conveyance despite blazing hot summers and bitterly cold winters. For the majority, cars are still prohibitively expensive. And now the city government is trying to suppress what many saw as a ray of hope, the electric bicycle.

In the past couple of years, battery-powered bicycles have become a consumer craze in many Chinese cities. “Not since the invention of the wheel have urban Chinese cyclists been so excited,” enthused the official *China Daily* newspaper last October. The bicycles offer an affordable alternative for members of the growing middle class who would like to buy cars but cannot afford them. But Beijing's traffic bureaucrats believe electric bicycles could cause chaos. This week they announced that, from 2005, they will be banned from the city's streets.

At about 2,000 yuan ($240) apiece, electric bicycles cost five times as much as a regular bicycle, but they require no driving licence, no insurance and no road tax, and their batteries can be recharged cheaply from a mains supply. Their only disadvantage is that they are stuck in a bureaucratic limbo. In China, all forms of road transport—even bicycles—require a licence. But in most cities the authorities will not give licence plates for electric bicycles because it is not clear to which category of vehicle they belong.

Liu Hua, who manages an e-bike factory in Beijing, says he does not believe that electric bicycles pose any unusual threat to traffic order or safety. But officials argue that, with a top speed of about 12mph (20 kilometres an hour), electric bicycles are too slow for car lanes and too fast for the sedate pace of cycle lanes. They also worry about environmentally unfriendly batteries. And they have little sympathy for what has become a successful little industry. Many of China's electric bicycles are made by small privately owned firms, which lack the political clout of the state-owned enterprises that manufacture China's cars and indeed its bicycles. Guess who's going to win?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Hunger in southern Africa

Can famine be averted?

Aug 1st 2002 | BINGA AND OSITENI
From The Economist print edition

Panos

If food aid is slow or obstructed, there will be starvation

AFRICA'S hunger is growing, dangerously. However quickly donors respond to the disastrous food shortage in southern Africa, millions more people will need aid over the next nine months.

Stocks from April's awful harvest are nearly exhausted. The World Food Programme (WFP) says that 7m people already need help, and that the numbers will double before Christmas. In the worst-affected countries, Zambia, Zimbabwe and Malawi, maize harvests were miserable, but cassava and potatoes partly filled the gap. Now these are almost gone, too. Within months, say aid agencies, chronic hunger could give way to starvation in the most remote areas. If donors are slow or obstructed, a vaster famine looms.

Rural people are vulnerable even in normal times. Malawi's woes are typical: it has a shrinking economy and endemic poverty; half its children are chronically malnourished. An acute land shortage has led to over-use, soil degradation and small yields. Imported fertiliser could make even tiny plots productive, but most small farmers cannot afford to buy it, and donors are sending less of it free. An internal report written in July by Britain's Department for International Development admits that its own severe cut in “free inputs” for Malawi's farmers in 2000 and 2001 was a “more important factor” leading to hunger than two years of bad weather.

The meagre harvests that resulted meant that the vulnerable have become desperate. In Ositeni, a village in central Malawi, a few withered maize stalks and yellowing cassava plants poke up from the dusty soil. The village has no irrigation, no grain silos, and no tomatoes or cash crops to trade for *nsima*, the country's maize staple. In other years, able adults would find casual work on neighbours' fields, in exchange for food. Now there are no jobs.

Last week, the first sacks of charitable corn were unloaded for Ositeni's 13 most needy families. But stockpiles are needed before November's rains make the bare-earth roads impassably muddy. The WFP has appealed for $507m for southern Africa, but has so far raised less than a quarter of that. Last week, relief groups and the Red Cross launched their own campaigns, and a few million dollars have rolled in. It is already getting late, says Brendan Paddy of Save the Children: “During the region's 1991-92 shortage, food was already stockpiled in forward positions by now. We are three or four months behind.” Aid workers fear that donors will not respond until they see skeletal people on television.

Zimbabwe's way

Even a generous response could be hampered. In Zimbabwe, where 6m people will need help, the government has ordered hundreds of commercial farms to close down by August 10th and is deliberately starving communities suspected of supporting the opposition. In Binga, a western district, 115 tonnes of high-protein porridge, intended to feed local schoolchildren, lies unused and rotting in a warehouse. A band of Mr Mugabe's club-wielding militiamen refuse to allow it to be distributed, because 85% of the people of Binga voted for Mr Mugabe's opponent, Morgan Tsvangirai, at the presidential election in March. The police could easily disperse them, but do not. Already, the children of Binga are fainting from hunger in class, and 27 people have died of hunger-related causes in the local hospital.

In other Zimbabwean areas, peasants suspected of dissent are barred from buying maize from the state marketing board. All around the country, the government seizes grain from “hoarders” and sells it cheaply to ruling-party card-holders. The regime barely troubles to hide its malign intentions: a deputy foreign minister recently crowed that “the [ruling] party will start feeding its children before turning to those of the [opposition].” James Morris, head of the WFP, says his agency will leave Zimbabwe “in a second” if its donations of food are manipulated for political ends. But the WFP has failed to prevent such misuse in the past in Sudan, Somalia, Angola and elsewhere.

The leaders of Zambia and Malawi are less obstructive, but their countries are far from ocean ports and have narrow roads and poor train tracks. Malawi's government is also under fire for selling all the grain (more than 160,000 tonnes) in its national store two years ago. In the capital, Lilongwe, diplomats and aid workers say that people close to the ruling party profited from the grain sale. “In another country they would be on trial by now,” says one diplomat.

Last week South Africa's president, Thabo Mbeki, admitted that the threat of 14m hungry people by the end of the year did not warrant discussion at the inaugural meeting of the African Union, which he chaired in July. But the danger stretches beyond this year. Aid workers worry that another bad harvest is likely in 2003, whatever the weather.

Poor soil, lack of fertiliser and the loss both of livestock and of people threaten production. The weakening effect of hunger means that more people are dying from diseases such as AIDS, which infects roughly a fifth of the people in Zambia, Zimbabwe and Malawi. The ravages of AIDS, plus the worsening poverty, mean that recovering from this food shortage will be tougher than it was after previous ones—and that people will be even weaker and more vulnerable when the next spell of deadly hunger arrives.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Angolan reunification

Happy families

Aug 1st 2002 | LUANDA
From The Economist print edition

With peace, people are coming home out of the bush

AP

EVERY Friday afternoon, hundreds of people flock to Luanda's Independence Square in the hope that they will be chosen to broadcast a message, seeking a long-lost relation, on Angola's newest television phenomenon, “Meeting Point”. Many clasp faded, dog-eared photos of relatives they have not seen in years, even decades.

In a shaky voice Joana Pereira gives her address and says that she is looking for her brother Joao, missing since 1982. She holds his identity card up to the camera, showing a grainy black-and-white mugshot of a teenager. Jaime de Costa is looking for his aunt, Bemvinda. She disappeared, along with her husband, in 1975, never to be heard from again. Isabel wants to find Pedro; Mario is looking for Bernardo. Row after row after row, they come.

Some of these Joaos and Bemvindas are certainly long dead. But a surprising number of them are proving to be still alive. Since Angola's ceasefire in April, they have been emerging from the bush in their hundreds of thousands.

They have been in the country ever since their disappearance, perhaps even within a few hundred miles of their families. But, stuck behind the UNITA rebels' lines, they have been forbidden to contact relatives on the government side, a ban that lasted for the whole 27 years of civil war. Those who tried, died. Many of them had been abducted in rebel ambushes and forced to work and fight for the movement ever since. Thus did UNITA sustain itself.

The fact that families can now, at last, re-establish contact is one of the most striking and joyous manifestations of Angola's new peace. Away from the glitz of the television cameras, the hard work of reuniting them is carried out by the National Family Tracing and Reunification Programme and, since the onset of peace, the Red Cross. Given the awesome size of the task, separated adults are left to fend for themselves, while resources are concentrated on reuniting children with their families.

The rebels systematically abducted children in order to raise them within their ranks. In 2001, even as the war raged, 7,765 unaccompanied children were registered by the reunification programme. But slightly less than half of them were brought back to their families. The violence made it too dangerous for the others to travel to their home areas.

Since the ceasefire the number of children coming out of UNITA-controlled areas of the bush to ask for help in finding their families has more than doubled. In one province it has increased seven-fold, to 240 per month. And now that peace has made it possible to travel, there is a much better chance of tracing their families.

Despite having had staggeringly bad luck for most of his young life, ten-year-old Jose Gomes is now one of the fortunate ones. When he was only four, he was captured by the rebels while on his way home from the fields. He was marched more than 800 kilometres (500 miles) to the east, and then put in a UNITA base near the Zambian border. He stayed there for five years (or, as he puts it, “five Christmases”), working as a servant for a rebel officer.

Late last year, after a protracted campaign, the base was overrun by the Angolan army. Jose was picked

up by government soldiers, loaded on to a helicopter, flown two hours north to the nearest city and dumped in an orphanage. Somehow he managed to remember where his mother used to live. The Red Cross were asked to help look for her, and found her still living in the same place. Three weeks ago, he was flown home.

Jose lost only six years of his life. As a child he will not be blamed for having lived with UNITA. But, had the war lasted a few years more, he would have become a rebel soldier, obliged to attack people, such as his mother, living in government-held towns. This has been the fate of many of the thousands of people now appearing from behind the rebel lines. Some, like Joao and Bemvinda, have lost 20 or more years to the bush. Much as their families want them back, they will not find it easy to forgive and forget the atrocities these returnees may have committed.

But family reunification is a basic step to national reunification. Both sides kept people apart as a way of prolonging the war. The fact that families are now coming together suggests that Angola too has a chance of reuniting, and being at peace.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Arab political prisoners

The red lines

Aug 1st 2002 | CAIRO
From The Economist print edition

Cross them and, however softly you speak, you are in jail

Get article background

EAT to please yourself, but dress to please others, advises an Egyptian proverb. In many Arab countries today, if your outward style fails to please others, you may go straight to jail.

EPA

Ibrahim said what others think

Such is the case with Saadeddin Ibrahim, a prominent Egyptian academic who has just been sentenced, in a retrial, to seven years in prison for the crime of criticising his government. But Mr Ibrahim is only the best known of a recent wave of Arab dissidents punished for speaking their thoughts. What distinguishes the new inmates is that they are not revolutionaries, but elderly, secular democrats.

Until his original arrest two years ago, the American-educated Mr Ibrahim was trusted enough by Egypt's rulers to host his own chat show on state television. Cabinet ministers sat on the board of the sociological research institute he ran, which had a reputation for savvy courtship of western funds. Mr Ibrahim's problems started when the institute launched programmes to monitor elections, encourage voter registration, and explore the situation of Egypt's Coptic Christian minority.

The airing of dirty laundry this entailed appears to have been considered a crossing of “red lines”—the current Arabic parlance for the point where pretences at civility stop. Mr Ibrahim was arrested at gunpoint in the middle of the night, and charged, along with a score of his employees, with swindling donors, accepting foreign money without permission, and smearing Egypt's reputation. A State Security Court sentenced him and his alleged co-conspirators to terms ranging from one to seven years, but a retrial was ordered under appeal. Hence the new trial and verdict, both of which have been decried by western governments and human-rights organisations as travesties of justice.

Alas, Mr Ibrahim's ordeal is far from unusual in the region. Among many recent political recruits to jail in quiet little Tunisia, for example, is Hamma Hammami. Mr Hammami, a left-winger and 30-year veteran of opposition politics, wisely went underground in the late 1990s, so escaping a nine-year conviction in absentia for “spreading false information”. His voluntary emergence from hiding earlier this year was seen as a challenge to the government. Instead of showing clemency, its courts sent him down for three years. Mr Hammami's wife, a lawyer, is currently on hunger strike, demanding his release.

Unlike Egypt or Tunisia, Syria does not try hard to cultivate an image of fair governance. Even so, the recent sentencing by a State Security Court of 72-year-old Riad Turk to two and a half years in jail seems unusually cruel. The communist intellectual, who completed a previous, 17-year, jail term in 1998, was one of ten distinguished dissidents rounded up last year. His crime, say Syrian activists, was to have commented on television that “the tyrant is dead”, meaning the late Hafez Assad.

One link between these cases, and similar political trials in countries such as Jordan and Lebanon, is that convictions nowadays are usually secured by due process of law. The trouble is that laws in most Arab countries prescribe harsh sentences for the vaguely defined crime of “libel”, and that the courts which impose such laws are hardly impartial. As Mr Ibrahim declares in a written statement that his judge refused to hear, Arab dissidents are often being tried solely “because we dared to say openly what millions of Egyptians and Arabs think in secret.”

The only consolation for Mr Ibrahim and other liberals may be that they get off lightly compared with Islamists, who make up three-quarters or more of the Arab world's political prisoners. Just this week, an Egyptian military court sent 16 more Islamists, mainly academics and professionals, to jail for three to five years. Unlike Mr Ibrahim they have no right of appeal, and, since September 11th, will not win much sympathy overseas, either.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Israel and Palestine

What might have been, perhaps

Aug 1st 2002 | EAST JERUSALEM
From The Economist print edition

The half-peace offering before the latest bloody cycle

Get article background

IT HAS been a cruel week and it is not over yet. The Palestinians have retaliated vengefully for Israel's bombing on July 22nd of a crowded block of flats in Gaza city. On July 31st they killed seven people—four Americans, a Frenchman and two Israelis—when a bomb planted in a handbag ripped through a student cafeteria at Jerusalem's Hebrew University, a multi-cultural institution where Palestinians study as well as Israelis. The day before, a suicide bomber attacked a fast-food stall in Jerusalem, the first suicide bombing in the city for six weeks. Earlier, seven settlers, one of them a child, had been killed in the West Bank.

On the other side, settlers had shot dead a Palestinian girl and stabbed another child in what one Israeli army officer said was “a pogrom against the Arabs of Hebron”. And, at the time of the university bomb, the Israeli government was approving new measures to deter suicide bombers through the collective punishment of their relatives, sometimes by exile.

The Gaza bomb, which slew its intended prey, Salah Shehada, Hamas's military leader, also killed nine children—and, say Palestinian leaders, halted their most serious ceasefire offer in seven months: an unconditional offer to staunch the bloodshed. This “ceasefire” document, drawn up by senior leaders of Yasser Arafat's Fatah movement, was ready for publication on the day of the Gaza bomb. Its text, published in *Haaretz*, an Israeli newspaper, on July 30th, promises to “do everything in our power to end attacks on Israeli civilians... We will do this without seeking or demanding any prior gains.”

The ceasefire is not a surrender, explain the signatories, who reserve their right to resist the Israeli army's occupation. There can be no peace until that ends, they say.“You must cease strangling our cities, killing our youths, taking our land for your settlements, ripping up our orchards, humiliating our women and children.” Nor is it clear whether “civilians” include armed settlers in the West Bank and Gaza. But on the suicide bombers the text is unambiguous: “The suicide bombings will be brought to an end. By us. Now.”

Would they have been able to do so? The document itself admits that its ban on “targeting the innocent” could not be implemented everywhere at once: “But we will now have the weight of public opinion on our side.” Israel's government was unimpressed. On July 29th Binyamin Ben-Eliezer, the defence minister, said that the signatories were political leaders with little influence over Fatah's military arm, the al-Aqsa Brigades, and none over Hamas's military wing, the Izzadin al-Qassam.

Other Israelis are less sure. Haim Ramon, Mr Ben-Eliezer's challenger for the Labour Party's leadership, said that the involvement of European and Arab diplomats in drawing up the document suggested that it carried more weight than his government gave it; at the very least it should have been considered before the decision to kill Mr Shehada. It was not.

Fatah's men say bitterly that this was because the Israeli government wanted their offer buried before it was born, the better to maintain its reconquest of the West Bank. They point out that the document had been approved, in his Israeli prison cell, by Marwan Barghouti. Of all Fatah's political leaders, he is the most influential among the al-Aqsa Brigades: they might have observed his call.

Would Izzadin al-Qassam have done the same? Probably not. Palestinian sources say that Hamas was divided on the offer, with some political leaders in favour of it but the military wing against. A day or two before the bombing in Gaza, Hamas's spiritual leader, Sheikh Ahmed Yassin, had struck a compromise, of

sorts, saying that Hamas would stop killing civilians if Israel withdrew from the recently reoccupied Palestinian cities, freed recently detained Palestinian prisoners and ended attacks like the one on Mr Shehada.

It is all history now. After Gaza, the Palestinian factions came together. The al-Aqsa Brigades claimed the first bombing in Jerusalem and the settler ambushes in the West Bank. Hamas claimed the bomb at the Hebrew University, and has said it will continue to revenge Mr Shehada's death “in Tel Aviv, in Haifa, in Hadera”. Sadly, Israelis in these cities can be sure that the threats are not idle.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The politics of pensions

We know what's best for your old age, why can't you see it?

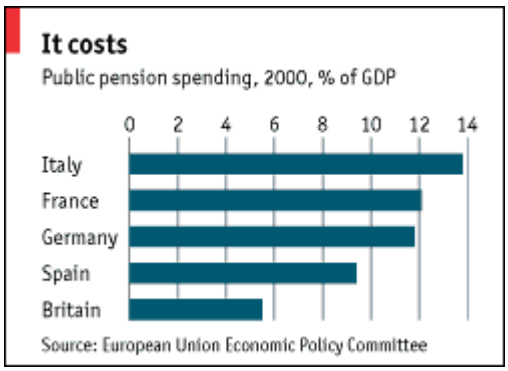
Aug 1st 2002 | FRANKFURT AND MILAN
From The Economist print edition

As its people grow greyer, Europe's state pensions systems will go deeper into the red. Germany and Italy are trying to push the private-sector alternative. It isn't easy

TIME is tight and nerves are thin. This week, after more poor opinion polls, Germany's Social Democrats decided to bring forward the final push in their campaign for re-election on September 22nd. *Bild*, a tabloid daily, put it about that, if he wins, Chancellor Gerhard Schröder will co-opt as economics minister Peter Hartz, a Volkswagen executive who heads a commission now polishing plans for radical labour-market reforms. It was denied, but the Social Democrats might well want to remind voters of their reforming streak. The economy needs reforms, and they have made some. Yet the opposition, successfully it seems, mocks their efforts as insufficient or mistaken. And their boldest attempt, an overhaul of the creaking pensions system, is labelled a flop.

Seven-tenths of German pensions come from a state scheme with roots in Bismarck's day. It is financed mainly by a levy on wages, 19.1% this year, half paid by workers and half by employers. But, as all over Europe, the demographics are grim. Today, there are 2.8 Germans aged 20-59 to support each pensioner. By 2030 there could be half as many. And the state can't just fork out money to fill the gap.

Enter, at the start of this year, subsidies plus tax relief for private pension plans. Enter too a tax break, plus relief from social-security contributions until 2008, for payments into occupational pension schemes. Bingo? No: despite a bombardment of advertisements, of the 35m people eligible, only 2m have so far signed up for private pension plans.



The opposition blames bureaucracy. The new schemes must satisfy 11 criteria to get government help: pensioners must get back at least what they put in (ie, a zero return, after years: well, thanks); they cannot touch their money until they reach 60, and even then may take at most 20% in a lump sum. Many in the financial industry agree, and add that the method of paying subsidies and tax relief is cumbersome. The opposition's pensions man, Horst Seehofer, says he would have just two criteria (including the zero-return rule, thanks again).

Hold on. The schemes have been choked by more than just red tape. Consumer organisations told people to take their time before plumping for a plan. So has the ministry concerned—and indeed Mr Seehofer

too: no point in rushing, he says, wait until we are in office.

And the puff for personal pensions has been overdone. They suit those with lowish incomes and big families: for them, the state's contribution may exceed their own. But for most workers—three-quarters of them, thinks the labour ministry—occupational schemes look a better bet, and simpler. Till now, these have mainly been the preserve of big companies, accounting for only 10% of pensions. But the new rules say workers can insist that part of their pay goes into a pension scheme; usually, as part of a collective-bargaining agreement. This is giving rise to new industry-wide schemes (a few exist already), drawing in smaller companies. Pension payments have so far been written into wage deals covering 16.3m employees.

Even so, money is only just starting to flow, thanks largely to the financial authorities' laborious approval procedures. The biggest new scheme, in the metalworking industry, got the nod only in May. Yet the first big inflow is in any case not expected until workers receive their Christmas bonuses, from which many should make their annual pension payment.

More may be needed to close Germany's pensions gap, although the Social Democrats will wait for a review in 2005. Compulsory private provision—an unpopular idea, when briefly mooted—may yet return to the agenda. But even critics of the system's complexity applaud the fact that anything has been done at all. Now, how much will change if the government does?

Meanwhile in Italy

Pensions are politics in Italy too. When Silvio Berlusconi came to power last summer, he promised to make reform of the state's costly pension system a priority. He began with an anti-reform, raising state pensions for low-income workers. Only at the end of last year did his government announce its plans for change. A draft law to implement them, by encouraging private pensions provision, is in the parliamentary pipeline, but stuck there.

The government's strategy is to get private pension schemes and funds, now embryonic, working properly first. Then, it hopes, it will be politically able to tackle the financing woes of the pay-as-you-go state system. But Italy cannot afford to wait. Its state spending on pensions is more than 14% of GDP, almost double the European Union average. Every year, payouts far exceed contributions by workers and employers. And as Italians live longer and have fewer children (Italy has one of the lowest birth rates in the European Union), the problem is getting worse.

But change faces fierce opposition from workers and their unions. Italians, like other Europeans have been shaken by the stockmarket slump; and though they know that the state may have to cut its pension payouts, they suspect that that risk may be far less than those of private-sector pensions. Against this opposition, Mr Berlusconi has shown little will to push through even his modest reform. He managed to split the two lesser trade-union confederations from their big brother, the CGIL, in a recent tug-of-war over labour-law reform. But none of the three looks likely to give ground on pension reform; and the government is not eager for a fresh confrontation. It already faces CGIL plans for a general strike in the autumn against the labour-law changes.

Even employers are lukewarm, in part, because they too fear the effects of major labour unrest. But they also have a straight financial reason. At present, 7% of a worker's pay is held back, to finance the lump sum that he is entitled to when he retires or changes employer. Although, since 1993, new employees can park this cash with a pension fund, most in fact is held by the employers concerned. And nice cost-free working capital it provides. But now the government proposes to channel all this money into private pension funds.

The government has tried to buy off hostility, offering employers a cut of three to five percentage points in their contributions to the state pensions system for new workers, even while assuring these workers that today's benefits will not be cut. Nor do its proposals mention the “seniority pensions”, popular with workers and employers alike, which enable some people who began work before 1996 to retire on almost full pension after 35 years.

To judge from the slow progress of the draft law, employers and workers may well not have to cope with any changes at all. Mr Berlusconi's previous government, in the mid-1990s, was brought down over pension reform. He seems unwilling to stick his neck out again.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Measuring deficits

Roll over, Enron

Aug 1st 2002 | BRUSSELS
From The Economist print edition

The euro-zone accounting lark. And don't blame Brussels

WHO cares about the precise size of Portugal's budget deficit? Until now, almost nobody. But in the new world of European monetary union, such figures suddenly matter a great deal. Any euro-zone country reporting a deficit above 3% of GDP risks a huge fine. Last week Portugal owned up to a 2001 deficit of 4.1%.

Alas, there's a problem. Countries collect their own numbers and report them to the European Union. Given the penalties for transgression, there is a clear incentive to cheat. How odd that Portugal in March expected a 2001 figure of only 2.2%. Eurostat, the EU's statistical agency, rejected that figure, a new Portuguese government did an audit, and out came 4.1%. While praising this belated “transparency”, the European Commission also fumed that there had “clearly been serious omissions in the production of government data” and urged Portugal to see it never happened again.

Portugal is not alone. Last month Eurostat refused to accept Italy's reduction of its deficit figures by securitising revenues from the state lottery and property sales. Hey presto, its 2001 deficit rose from 1.6% to 2.2%.

Rashly, the head of Eurostat compared the accounting practices of the Italian government to those of Enron. A wicked libel, of course. But, just as other corporate scandals followed Enron, might there be further skeletons in the closets of euro-zone finance ministries? Germany forecasts a deficit of 2.8% in 2002, but tax revenues are below predicted levels. So? A German official of the European Commission muses: “Perhaps my countrymen will be too honest for their own good.”

And if not? There's little Eurostat can do. It has a plan to harmonise the statistics, but it can't go in and audit for itself.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

France's regions

Devolution for Corsica?

Aug 1st 2002 | PARIS
From The Economist print edition

France's new prime minister has new plans—remarkably like the old ones

Get article background

IN APRIL, as he was seeking re-election, Jacques Chirac paid a lightning visit to Corsica and announced that he would never accept any “institutional cosmetics” that would place the perpetually troubled island “in the margin of the French Republic.” Translation: the devolution proposed by Lionel Jospin, the Socialist prime minister and his then rival for the presidency.

Mr Jospin had made a deal with most of Corsica's politicians, including some who want to secede from France. It would give the island's parliament some legislative autonomy, and let schools teach in the Corsican language. Last weekend Mr Chirac's new, centre-right prime minister, Jean-Pierre Raffarin, paid his own lightning visit to Corsica—and announced an approach virtually identical to Mr Jospin's.

Why is Mr Raffarin being given the presidential nod? For a start, he is not Mr Jospin. Second, the election has shown it is safe. The leading critic of Mr Jospin's deal with the Corsicans was his own interior minister, Jean-Pierre Chevènement, who resigned in protest. But when he in April ran for the presidency on a platform of “republican values”—ie, inter alia, no devolution—he got only 5.3% of the vote. But the basic reason is that something has to be done to check violence in the island, be it secessionist or simply criminal.

Mr Raffarin has found a neat way of letting Mr Chirac change course: devolution will not set Corsica apart from the republic, but let it be a “precursor” for the government's plans for general decentralisation. It can get its own deal, without flouting the constitutional ban on any such thing.

Will it work? One secessionist leader, Jean-Guy Talamoni, says there can be “no question of including Corsica, a historic nation that has known full sovereignty, in a general, uniform and France-wide process of decentralisation”. And Mr Raffarin will find it hard to meet the demands for an amnesty for “political prisoners” and for the assassin being hunted for the 1998 murder of the island's prefect. Still, the government is showing its good faith: it will give Corsica the full *euro*1.98 billion ($1.93 billion) of development aid over 15 years promised by, yes, Mr Jospin.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Slovakia's politics

The secret service gets its (own) man

Aug 1st 2002 | BRATISLAVA
From The Economist print edition

He ran from justice. Now he's back—at just the time that suits the government

THE ex-boss of Slovakia's intelligence service, Ivan Lexa, was his country's most wanted man. He fled in 2000 under suspicion of, among other things, corruption, fraud, theft, aiding criminals, kidnapping and armed robbery. Many thought he would never be captured, some thought him already dead. Yet there he was, under Interpol guard, at Bratislava airport last month, and the centrist government of Mikulas Dzurinda, which secured his extradition from South Africa, is crowing.

It has been losing popularity at home and credibility abroad for months. The timing was convenient. How better, in the run-up to September's general election, to remind forgetful Slovaks of the sorry way their country was run by the previous government, led by Vladimir Meciar? Rumour has spotted Mr Lexa more than once in the past two years: in Paraguay, with a new face; in Austria, in a shallow grave. In fact, he was sunning himself at Umhlanga Rocks, a beach resort just north of Durban in South Africa, from a hotel owned by, guess who, his former secretary, who had slipped the country around the same time as her boss, telling her mother she was off to Australia to learn English.

Did nobody know? Some people think the Dzurinda government did. One report even had the missing man getting into a Slovak embassy car in Pretoria. And how did a secretary come into the money to buy a hotel? Whose money was it, exactly?

That gets to the heart of the matter. Mr Lexa's wealth, and that of some other cronies of Mr Meciar, was largely stolen from the state. The total that went walkabout during their watch, in 1994-98, will never be known. A recent investigative report by the daily newspaper *Sme* talked of $270m of privatisation revenues. This and much else bankrolled political interests and businesses, or was moved into offshore accounts. Mr Lexa probably knows more than anybody else of how much, how and by whom. He did the dirty work for Mr Meciar, which may even have included kidnapping the then president's son. He would make many wealthy Slovaks nervous if he started naming names.

But, given a choice between trial before a rotten and inadequate judiciary—one that he may yet possibly bully or bribe—and a bullet in the head from one of his less savoury former acquaintances, he will probably keep his mouth shut.

Whatever the verdict, the government hopes to get some credit for capturing Mr Lexa. Spiriting him out of South Africa was certainly not easy. Bigger places, including Italy and Germany, have tried and failed to get that country to hand over their crooks.

Could the trial wreck Mr Meciar's election chances? He was “unpleasantly surprised” by Mr Lexa's untimely return, says a Bratislava observer. But the former prime minister won't say a bad word in public about Mr Lexa. Yes, he fled the country. Yes, he swam carefree in the Indian Ocean for two years. But does that make him a criminal? “These accusations are political,” Mr Meciar says. In private, he is not so generous: Mr Lexa was stupid, he would not have been picked up and sent home if he had applied for asylum. Nor has Mr Meciar's bad mood been improved by defectors from his party setting up a new one of their own, underwritten, it seems, by a company with strong ties to Mr Lexa.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Russian families

So where are all the men?

Aug 1st 2002 | ST PETERSBURG
From The Economist print edition

Making children is easy, making a good father is not

RAISING her children on her own in Soviet days was hard for Eleonora Usachova. She was not really ostracised, but society preferred dysfunctional marriages to single-parent households. Today, both of her daughters, sharing her flat in a standard block in suburban St Petersburg, are single mothers. So are many other women she knows. The Russian family has altered, with men shuffling out of the burden of caring for their children. The single mothers left to do the job now swell the growing ranks of the poor, and have little hope, except in remarriage, of ever doing better.

The data are patchy, but a recent survey by the Russian Academy of Sciences says that 28% of all children are born to unwed mothers. That's not much by some west European standards. But in Russia a figure of 24% was last seen just after the second world war. In later Soviet years the figure dwindled to 10-13%.

That was due more to the conservatism of society and harsh state policy than to family planning. Puritanism and poor knowledge of contraceptive methods pushed many young Soviet citizens into unhappy early marriages, which they then stuck to, in order to keep a flat or look respectable. Sometimes the local party committee bullied them into staying together. Nowadays, with contraceptives freely available, family planning should rule. It doesn't. Accidental pregnancies are still common; 40% of out-of-wedlock children are born to teenage mothers, and most of those pregnancies are unplanned.

Social pressure to marry is much smaller these days, but so is social help. And the marriages themselves seem to be shakier than ever. According to official statistics, divorce has grown from 3.7 per 1,000 people in 1999 to 5.3 last year. Some 45-65% of Russian marriages end in divorce. And, as everywhere, it is usually the mother who heads the resultant single-parent household. In Soviet times, a divorced woman could count on her ex-husband's employer to make sure she received alimony. Nowadays there is no reliable way. Overstretched courts and an incompetent bailiff service make it almost hopeless to fight for alimony through the courts. Even if the woman wins, entitling her to a quarter of her ex-husband's pay, it is seldom worthwhile. Most Russians work on false contracts, which record only a symbolic sum as wages; up to 90% of the real figure is paid in cash.

Single-mother households are among Russia's poorest. With education and medical costs growing, their kids are off to a bad start. The absent fathers seldom pay a rouble, and only 5% or so take any real part in their children's upbringing. If indeed they did when present: too many men aren't able, or simply don't choose, to provide for the family; alcoholism or apathy is an easier choice.

Ms Usachova may or may not know about the complicated social theories meant to explain the reality that surrounds her. But, watching her two daughters struggle to feed their children with hardly any help from their partners, she has formed one of her own. Those Russian men who are giving up on their children do that, she says, because they can get away with it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Charlemagne

Spain's would-be heirs to Aznar

Aug 1st 2002
From The Economist print edition

The Spanish prime minister has plenty of choice

THEY are known as the three tenors: Spain's top conservative heavyweights, widely tipped, one or other of them, to succeed the prime minister, Jose Maria Aznar, who insists he will not stand for a third term at the next election in 2004. But no one can be sure, and a cabinet shuffle last month has brought into the arena younger politicians to fight for the leadership of his People's Party. “Our candidate will emerge...all in good time,” said Mr Aznar, trying to calm the frenzied speculation generated by his changes. Fat chance. With local elections less than a year away, the countdown has begun.

Opinion polls used to indicate a clear favourite: Jaime Mayor Oreja, Mr Aznar's first interior minister. He left the cabinet last year to lead the local People's Party in an election for the Basque regional parliament and oust the Basque nationalists who have governed the region ever since Spain's system of devolution was set up. Mr Mayor Oreja, himself a Basque, from the Christian Democrat wing of his party, did not succeed in that: but the party's vote increased substantially. Spaniards admire his tough stand against terrorism while he was in office, and his tenacity today in remaining in the Basque country, where he is a prime target for the separatist terror group ETA.

The other two tenors are Mr Aznar's two deputy prime ministers. Rodrigo Rato, the smooth, long-serving finance minister, is the most rounded member of the prime minister's team. He complains that it is not his fault that he was born into a wealthy family and knows all the top money people. This is held against him when they become embroiled in financial scandals, but it played a big part in winning business backing for Mr Aznar. Mr Rato has kept Spain's economy well on track, has the most solid of party credentials, and looks good abroad. Too good? Possibly. Spaniards admit that envy is their national disease.

The other deputy, Mariano Rajoy, an efficient but dark horse from Spain's Celtic corner, Galicia, is Mr Aznar's invaluable right-hand minister. He succeeded Mr Mayor Oreja at the interior ministry, and since the reshuffle heads the cabinet office and is the government's spokesman. This may give him a chance to increase his hitherto limited public appeal.

But all that was before Mr Aznar announced his changes. He got rid of a fair amount of dead wood; he has given his young justice minister, Angel Acebes, a chance to shine at interior; and he has brought in a couple of outsiders to help the government look fresher and livelier. The new face that will attract most attention is that of Eduardo Zaplana, who has presided successfully over the region of Valencia. He will be tested as labour minister: he has to put into effect new labour-law reforms, while rebuilding relations with the trade unions, which these reforms, imposed from above, have strained to breaking-point.

Another possible challenger is Alberto Ruiz Gallardon, Madrid's regional premier. His refusal to keep to the sectarian demarcations of Spanish politics endears him to floating voters, but has infuriated some of the more diehard members of the party, including at times Mr Aznar. But now he is back from the cold: Mr Aznar has asked him to stand for mayor of Madrid next spring, to fend off a Socialist candidate who had begun to look as if she might have some chance of success.

Enter another Palacio

A lot of Spaniards have been rubbing their hands in gleeful anticipation of a generational battle between the old favourites and these younger bucks. But, in the first skirmish for headlines, both groups have lost out to the new foreign minister, Ana Palacio. Until last month Ms Palacio was a Euro-MP. She flew back straight into Spain's biggest diplomatic crisis since Mr Aznar took office: Morocco's landing of troops—

only a handful, but troops are troops—on a disputed islet near one of Spain's two North African enclaves. Ms Palacio, an aristocrat by birth and a punchy lawyer by profession, swiftly proved her mettle.

She eloquently argued Spain's case over the islet and swallowed her pride, after Spain had thrown the Moroccans out and the Americans had got the two sides talking, to endure a frosty meeting with her Moroccan counterpart. She will have further chance to shine now that the king of Morocco has this week vigorously restated Morocco's claim to the two enclaves. Her plain-speaking accessibility has brought much-needed fresh air into the cabinet. Enough to make her a possible heir? Mr Aznar in 1999 picked Ms Palacio's elder sister Loyola as one of Spain's members of the European Commission; a former minister, with deeper party roots, she too has been tipped as a possible successor. But Mr Aznar, though he has stuck to his quota (three) of women ministers, is no feminist. And the younger Ms Palacio's forthright style may not be welcome to all back in Madrid.

In the end, though the party will have some say, Mr Aznar is pretty much the man who will choose.The older contenders know that powerful leaders tend to prefer a younger successor who will cast no shadow over their achievements. Whether Mr Aznar feels he has to fall back on one of the seasoned heavyweights or can afford a riskier choice will depend in part on the state of the opposition Socialist Party. Its policies remain half-baked, but its leader, Jose Luis Rodriguez Zapatero, has had time to carve out a profile as a moderate centrist.

Mr Aznar's own ambitions could come into play. He thinks the European Union's Council of Ministers should have a long-term president drawn from a pool of former prime ministers. It is hard not to see him as a candidate for the job, despite his ambiguous protestations to the contrary. And he may be thinking—rightly or wrongly—that, if he were in Brussels, a woman in Madrid would allow him more of a say back home than a man. Bear in mind too that Mr Aznar, a ruthlessly efficient political strategist, does like to pull a rabbit out of a hat. It proves that he's in charge. Don't rule out the Palacio sisters, not yet anyway.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

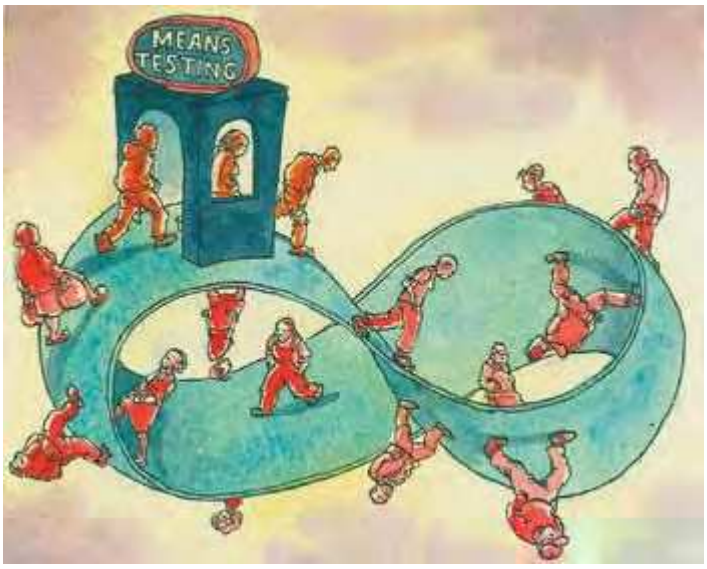
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Welfare state

The tender trap

Aug 1st 2002
From The Economist print edition



Gordon Brown means well with his expansion of means-tested benefits. But they will catch too many people in a system that blunts incentives to work and save

AFTER the budget, which poured money into health care, and last month's spending review, which did the same for education, no one is in any doubt about the government's commitment to spend more on the public services. That has distracted attention from another of its priorities: the extra support for families, low-earners without children and pensioners that starts next year. Altogether, the full-year additional cost of the new credits—Labour's term for this welfare spending—will be £4.6 billion ($7.2 billion), close to next year's increase in the education budget.

Not only are these credits costly, they also mark a major extension of means-testing, the payment of benefits according to income rather than on a universal or contribution-linked basis. Unlike child benefit, which goes to every mother regardless of her family income, the new child tax credit will not be paid to richer families. Unlike the basic state pension, which goes to everyone who has contributed through their working lives to the national insurance system, the pension credit will be paid only to poorer pensioners.

In 1997, 14m people—25% of the population—were on means-tested benefits. But according to an analysis by the impartial House of Commons Library carried out for the Liberal Democrats, the number of people on means-tested benefits next year will be 25m—43% of the population. The impact will be especially pronounced among Britain's 11m pensioners, half of whom will be on means-tested benefits.

From an international perspective, Britain is moving away from the most common model of the welfare state in developed economies, and towards the Australian model where means-testing is widespread, says Mark Pearson, head of social policy at the OECD. “In the great majority of rich countries, means-testing is very much the last-resort benefit,” he says.

The advantage of means-testing benefits is that you get more bangs for your buck. The Labour government has ambitious targets to reduce child poverty, and it also wants to alleviate poverty among pensioners. But it does not want to push up tax bills too much. Means-testing allows it to concentrate benefits on the neediest while minimising overall spending.

But means-testing comes at a price. For one thing, such benefits are often regarded as stigmatising, so

people are reluctant to claim them. They are also complicated to understand, which can affect take-up. The upshot is that in practice such benefits are less effective in reducing poverty than they look on paper.

As means-testing stretches out to embrace so many more people, stigma is unlikely to be the problem it once used to be, however. The government is also trying hard to tackle complexity by making forms simpler and claims less frequent. Even so, “trying to work out how the pension credit works is beyond most of us,” says Steve Webb, the pensions spokesman for the Liberal Democrats. As he points out, the government's own target of paying the credit to at least 3m pensioner households by 2006 means that they will miss a million of the 4m eligible.

But the main price of means-tested benefits is the harm they do to incentives to work and to save. Unlike universal benefits, they are withdrawn as income rises. So people receiving them have less of an incentive to find work in the first place or to work long hours when they get a job. And if working people know that they can expect to receive means-tested pension support, they have less of an incentive to save for their retirement.

Gordon Brown has sought to mitigate these disincentives in two principal ways. First, he is pumping more money into in-work benefits, such as those for working families which supplement earned income for the low-paid. Next year, low earners without children will also receive such help. Second, he is ensuring that the new credits are withdrawn quite gradually, so that people on them generally lose about 40% in benefit for every extra pound of income, whether from work or retirement savings. These “taper” rates mean that no one should face a situation where they are no better off if they are working or have saved for their retirement.

However, each of these strategies has its limits. Mr Brown's scope for creating a clear gap between the rewards from working and not working is constrained by the commitment to cut child poverty. This means that the new child tax credit is delivering a lot more money to low-income families who are not working, as well as to those who are—a marked contrast with America's welfare-to-work strategy. More gradual taper rates mean that fewer people face effective marginal tax rates—taxes and benefit deductions on an extra pound of income—at penal levels of up to 100%. But they drag more people into a system where such marginal tax rates can still be higher than the 40% top rate of income tax.

A new study by Mike Brewer and Tom Clark of the Institute for Fiscal Studies has sought to work out the overall impact on incentives of Gordon Brown's tax and benefit changes from 1997 through to next year. They conclude that the pension credit means that “a very significant proportion of people planning to retire in the distant future face an unambiguously reduced financial incentive to save”. The reforms, they say, generally help to spring the unemployment trap (where it does not pay people to find a job). But this gain comes at a cost: on average among employees, marginal tax rates will have risen across most earnings categories (see chart).

The extension of means-tested benefits is risky, according to Mr Pearson, because “there are an awful lot of people in the middle of the income distribution who are going to discover they've got higher marginal tax rates.” This is less likely to affect men than women, he says. “For women with children there are quite high costs for every extra hour of work, and you're giving them an incentive to work less.”

There are alternatives. Since older pensioners are generally the poorest, those over 75 or 80 could be paid a much higher basic state pension, thus reducing poverty without creating disincentives to save for retirement. This could be combined with targeting means-tested benefits more tightly on low-income families. Some of these might be discouraged from working, but if fewer people overall faced higher marginal tax rates, it might well be preferable to ever more means-testing.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Anti-terrorism

Told you so

Aug 1st 2002
From The Economist print edition

A setback for the government's anti-terrorism measures

ANY foreign terror suspects at large in Britain have reason to breathe a sigh of relief. This week, immigration judges ruled that legislation passed in a hurry at the end of last year, which provides for the internment of foreigners suspected of international terrorism, is unlawful. The Special Immigration Appeals Commission said that the indefinite detention of 11 such suspects, all Muslim Arabs, without trial or charge, was discriminatory.

No one will be more pleased by the ruling than Abu Qatada, a Jordanian refugee who fled into hiding last December amid reports that his name was top of an MI5 list of wanted militants. Now Mr Qatada—described by Spanish courts as the spiritual leader of the al-Qaeda network in Europe—is said to be ready to return to the bosom of his family.

He shouldn't hurry. Despite the ruling, the nine suspects still enjoying Her Majesty's hospitality (two others left the country, as the legislation permits) will remain in prison, pending the appeal that the government has said it will pursue. Nor was the judges' ruling conclusive. After exposure to secret intelligence reports, the commission chairman, Mr Justice Collins, declared that “the government was entitled to form the view that there was and still is a public emergency.” Given the threat to the life of the nation, he said, the detention of terror suspects was a legitimate response. Detention without trial—on the basis of evidence that neither the accused nor their lawyers could hear, let alone answer—was not what troubled the judges.

The problem, as they saw it, was the way the government went about it. Singling out foreigners, they said, amounted to discrimination. The government's response, in effect, was that it discriminates against foreigners all the time—just look, for instance, at airport procedures. But the judges said that David Blunkett, the home secretary, was wrong to opt out of Article 5 of the European Convention on Human Rights (which bans detention without trial) without also, in the jargon, “derogating” from Article 14 (which bans discrimination on the grounds of race or nationality). If the government really wanted to intern foreigners, the judges added helpfully, it should consider introducing legislation that would cover supposed British terrorists as well.

Try, try again?

If he loses the appeal, the home secretary may well decide that introducing new legislation will be more trouble than it's worth—although, of course, events may yet prove it to be worth rather a lot. The government suffered at least 12 parliamentary defeats when it rushed its law through last December, plus lots of accusations of Draconianism (as well as widespread predictions of the sort of legal difficulty that arose this week). MPs are likely to be even more reluctant to approve the internment of British citizens.

Moreover, perceptions about the trade-off between freedom and security have changed. Measures that seemed necessary when the American attorney-general toured European capitals last autumn now look less attractive. Even Mr Blunkett now concedes that co-operation with America has its limits. This week he rejected Washington's request for the extradition of Yasser al-Sirri, an Egyptian bookseller who for the past seven years has run a propaganda agency of Egyptian *jihadis* in London. There was, he said, insufficient evidence to warrant the extradition.

British courts have treated the war on terror even less kindly, frustrating America's efforts to prosecute al-Qaeda suspects living in Britain. The American Justice Department failed to obtain the extradition of

Lotfi Raissi who, it was claimed, helped train the hijackers responsible for the September 11th attacks. The court ruled that the prosecution had “no evidence”, and set him free. In June, an order for the extradition of Rachid Ramda—wanted in France for bombings on the Paris Metro in 1995—was quashed. London's *jihadis* say the risks of a round-up are receding, and that soon their preachers in detention and hiding may return to the fold. To many people, that is a frightening prospect. To others, Mr Blunkett's willingness to throw away the key is almost as alarming.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Crime

Paradise lost

Aug 1st 2002 | KYRENIA
From The Economist print edition

Northern Cyprus's reputation as a crime haven may be coming to an end

THE biggest boat in Kyrenia's beautiful harbour is the *Louis Marie* (see picture), a traditionally built wooden schooner. Its owner, John Doherty, a property-developer, now dabbles in importing cigarettes. He and his Belgian girlfriend spend much of their time aboard their $500,000 craft—when, that is, they are not drinking at the Pine Bay Club three miles down the coast, where he is a local celebrity.

Ill-gotten gain

It sounds a good life, but Mr Doherty, who comes from Fife, has to be careful where he sails, because the police want him. In 1996 he was sentenced at the Inner London Crown Court to seven years in jail for a £5m fraud on a Swiss bank. A year later, he absconded from Ford open prison. His horizons may be limited, but he is not short of company. More than 20 other British criminals shelter from British justice in Northern Cyprus; many of them continue to be involved in drugs and money-laundering.

The Turkish Republic of Northern Cyprus (TRNC), which came into existence in 1974 after Turkish military intervention, has replaced Spain as the preferred destination for Britons who would prefer to keep a distance between themselves and the law. The Costa del Crime, once a notorious refuge of British crooks, is no longer an option because of Spain's membership of the European Union.

Its illegal status, and the resulting lack of any extradition agreement, mean that Northern Cyprus has seemed to be a safe haven. It is also cheap. A cup of coffee costs less than 2m Turkish liras (about 80p) because of the depreciation of the currency. With more than 20 casinos, 40 offshore banks and hundreds of bars and drinking clubs, North Cyprus offers what the tourist brochures like to describe as “a relaxed lifestyle”. Besides, the beaches are glorious, the climate is balmy and the mountains are dramatic. But a less euphemistic description might be “a paradise for criminals”. In its latest annual report, the American State Department's Bureau for International Narcotics finds “strong evidence” of a growing trade in narcotics with Britain, as well as “significant money-laundering activities.”

But things may be changing. The TRNC, which does not enjoy its dubious reputation, has in the past month belatedly taken action against two prominent British residents. Brian Wright, a leading British drugs-smuggler, last month fled his luxurious villa near Lapta, in the hills to the west of Kyrenia, after he was tipped off that he was about to be deported. Mr Wright, the head of one of Britain's biggest drug-rings, and apparently known as “the milkman” because he always delivered on time, used bookmakers to launder the money he got from importing three tons of cocaine. Fifteen members of his gang, including his son, received jail sentences totalling more than 200 years, but Mr Wright managed to evade arrest by

skipping to Northern Cyprus. His current whereabouts are unknown.

The TRNC has also recently deported Stanley Rankin, who has a criminal record involving theft and deception going back to 1984. In 1995, he was arrested by City of London police in possession of eight forged promissory notes valued at $2.5m. His solicitor says the charges against him were dismissed by magistrates. Mr Rankin is now holed up in an Istanbul hotel busily proclaiming his innocence. “I have lived in Northern Cyprus for six years. The suggestion that I have been involved in money-laundering is ridiculous,” he says.

Brian Wright and Asil Nadir

Turkish-Cypriot willingness to take action in these two cases could represent a watershed, according to British officials. They admit that, despite the Turkish Republic's illegal status, there has always been co-operation. “We spend a lot of time talking to them; there is liaison at all levels,” says one official.

Serious criminals continue, however, to find refuge in Northern Cyprus. One of them is Garry Robb, who jumped bail before he could be tried on drugs charges in 1997. Mr Robb, who owned the Blue Monkey nightclub and several other clubs on Teesside, was charged with conspiracy to supply Ecstasy and amphetamines, offences for which his elder brother, James, was jailed for 12 years. He is now living in a small village five miles east of Kyrenia and spends a lot of his time at the Rocks casino. His neighbours, who insist on anonymity, say he is not someone to be crossed.

Apart from being rather richer, the lifestyle of the fugitives appears not so different from that of the 600-strong ex-pat British community. The traditional occupations are gossiping and adultery. They mostly live in whitewashed stone villages in the hills above Kyrenia, spending their nights in watering holes with apt names such as “Hideaway Club” and “Crow's Nest”.

It certainly beats being banged up in jail, but life in such a small community can be claustrophobic. Asil Nadir, the former chairman of Polly Peck, who lives near Lapta after fleeing to Northern Cyprus in 1993 to avoid his fraud trial, has been described by his own lawyers as “paranoid, depressed and possibly suicidal.” Even paradise, it seems, can pall.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

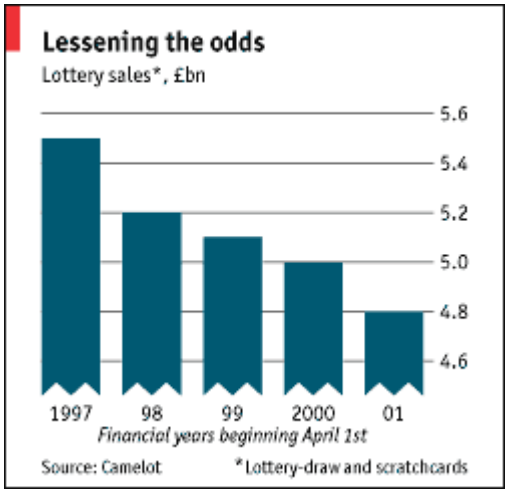
About sponsorship

Gambling

Losing streak

Aug 1st 2002
From The Economist print edition

What to do with the National Lottery?



SINCE its launch in 1994, the National Lottery has become not only an irritating interruption to the BBC's Saturday and (from 1997) Wednesday-night television broadcasts, but also a familiar part of daily life. More than 70% of the population regularly play the lottery; more than 90% have played at least once.

But the punters are getting restless. Ticket sales have fallen since 1997-98, the lottery's £5.5 billion *annus mirabilis.* By 2000-01, they had dropped to under £5 billion. Dianne Thompson, chief executive of Camelot, the company which operates the lottery, blames the continuing slide on the Queen Mother's death and funeral in April, the subsequent Golden Jubilee celebrations and the World Cup—supposedly because, in all the excitement, people forgot to buy lottery tickets.

Ms Thompson identified a more likely cause when she acknowledged that most people playing the game "would be lucky to win a tenner". Quite possibly many Britons have simply grown weary of the 14m-to-one odds against hitting the jackpot.

Ian Walker, a professor of economics at the University of Warwick, offers a different explanation. The midweek draw, he points out, remains fairly successful; it is the Saturday draw that has declined most dramatically. "The Wednesday draw enjoys large rollover injections from Saturday, which keep the punters coming back." And this means that the Saturday draw has a larger supply of smaller rollovers, making it less attractive. By introducing a second weekly draw and linking the two games together, Camelot may have put off a lot of potential ticket-buyers.

Desperate to turn things round, the company has earmarked £72m for promoting the lottery. A recent rebranding package involved changing the name of the main draw to "Lotto" (no prizes for originality there); a television advertising campaign featuring Scottish funnyman Billy Connolly; revamped televised draws; and some new games, including one called "Hot Picks", which sounds like the name of a journal devoted to exciting new farming implements.

In an attempt to combat "lottery fatigue", the Department for Culture, Media and Sport (DCMS), which is responsible for the way lottery proceeds are dispensed, has issued a consultation document on how the game is run. Suggested alternatives include bringing the lottery under public-sector control and handing its operation to the existing regulator, the National Lottery Commission; streamlining the grant-application process; and creating a promotional body to make much of lottery-funded "good causes", which, the DCMS feels, should include more small community projects in poorer parts of the country. Any changes will take effect in time for the awarding of the third lottery licence in 2009.

A potentially radical shake-up? Maybe. But none of these proposals addresses the awkward matter of regressive taxation—the use of revenue from a state-run lottery for projects (white elephants such as the Millennium Dome, for instance, or toffs' playgrounds like the Royal Opera House, or indeed more traditional "good causes" such as health or education initiatives) which should be paid for by other means.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Niche sports

The running of the boules

Aug 1st 2002 | SHERSTON, WILTSHIRE
From The Economist print edition

France's favourite pastime is making inroads across the Channel

IF YOU thought that boules was a game for doddery old French peasants with bad teeth and nothing better to do, you would be dead right. But that's not *all* it is. Boules, indeed, is not just a game, it's a way of life. It's got history (two balls and a jack were found in the sarcophagus of an ancient Egyptian prince). It's got passion (a player from Grenoble was jailed for shooting dead a rival whose boule landed on his foot). Better still, it's simple and cheap. No need for an immaculate strip of lawn—a bit of fine gravel will do. The aim of the game is to get your boules closer to the jack than your opponent's. The first team to reach 13 points wins.

Around 10m French people play boules (or pétanque) on a regular basis. But nowadays Britons don't have to cross the Channel to enjoy this most Gallic of games, as anyone who happened to be passing through Sherston—a tiny, picturesque village in north Wiltshire—during its 17th annual boules tournament, earlier this month, could tell you.

Several hundred spectators looked on as local and visiting sides slogged it out for the Sherston Cup in the village's gravelled-over High Street. A team led by Roger Norton, from nearby Malmesbury, had claimed the prize eight times already; would they make it nine? (In the end, yes, but only after the longest final ever, stretching over a nailbiting 90 minutes. The final score: 13-12.)

Just 16 local sides took part in the village's first tournament, back in 1986. It has since grown to become—as proud Sherstonians will unblinkingly tell you—the biggest and best one-day boules competition in Britain, attracting 128 teams and raising more than £6,500 for local charities and causes. “Every year, this event just seems to get better and better,” says David Kemble, chairman of this year's tournament. “They have a similar thing in Bath,” Irene Johnston, a committee member, adds, “but that's a bit of a celebrity scene. Anyway, Sherston does it with much more style.”

Boules is played in more than 50 countries around the world. The British Pétanque Association co-ordinates a network of 320 affiliated clubs and over 4,000 members. Some predict that boules will become an Olympic sport in 2012 or 2016. Maybe there will be a British team to give the French diehards a run for their euros. *Qui sait?*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Bagehot

The spring in Mr Blair's step

Aug 1st 2002
From The Economist print edition

The Labour and Tory leaders are setting off on their holidays, and there's no doubt who's the happier

AS TONY BLAIR prepares to decamp with his family to the secluded peace of rural Gascony, he knows that the next few months could be the most exacting of his premiership. It now appears almost certain that, before long, he will have to persuade a wobbly country and an even wobblier party that it is right to join America in waging pre-emptive war against Iraq. He must also soon decide whether those same powers of persuasion can convince a still more-or-less sceptical electorate that it is in the nation's interest to join the euro. And, possibly more critical than either to the long-term success of his administration, he must inject some much-needed momentum into the government's apparently flagging attempts at public-service reform, before the unions' feeding frenzy becomes unstoppable.

Any one of these forthcoming tests of Mr Blair's mettle is big enough and scary enough to intrude roughly into the prime minister's poolside musings. There is no graver responsibility for any prime minister than the commitment of British forces to violent action, especially when that action is politically (and possibly even legally) controversial. Even for the veteran of Kosovo, Sierra Leone and the mountains of Afghanistan, the decision to invade Iraq will be momentous. Although Mr Blair dismisses any idea that he may depend on the Tories for a House of Commons majority on this issue, he would cut a lonely figure if anything were to go badly wrong in the conduct of either the war or its even trickier aftermath.

As for the euro, the political stakes may be of a different kind, but are hardly any lower. And if Mr Blair's attempt to put Britain's shabby public services to rights with very large amounts of money is seen to fail, surely the very idea of what a Labour government is there to do will have been fatally undermined.

Does Mr Blair seem bowed down or wearied by these great burdens as he begins his holiday? Far from it. Will the contemplation of them spoil his enjoyment of the potted *foie gras entier* with which friendly locals are sure to ply him? It seems unlikely. After rather tetchily enduring a miserable few months in early summer when spin and sleaze dominated the headlines, the prime minister has recovered his usual perkiness. The televised press conferences he introduced in June have been a success, and he performed impressively during his marathon (if over-respectful) interrogation by select committee chairmen. Although not spectacular, these staged events have reminded many people why it is they quite like Mr Blair.

Although the government's spending plans received a fairly critical reception, most of the barbs (for once) were aimed at the chancellor and his typically labyrinthine new command-and-control systems for monitoring the journey of every tax pound. While Gordon Brown is seen as a bureaucratic centraliser, determined to bludgeon the public services into producing the outputs he requires, it is Mr Blair who is credited with being the would-be reformer, if an insufficiently dogged one.

It is a contrast that does not altogether displease the prime minister, who has recently taken a leaf from Margaret Thatcher's book, complaining—as she used to, in the manner of an exasperated observer—about the government's lack of radicalism. Although Mr Blair doesn't quite say it, he is convinced that the far-reaching structural reforms that will deliver better schools and hospitals depend on his determination to confront the timidity of ministerial colleagues and the inertia of civil servants.

When it comes to war with Iraq, the prime minister is, if anything, even more confident about the role he, and he alone, must play. Removing Mr Hussein is simply the right thing to do. And once Mr Blair has painstakingly presented the evidence of the growing threat from the Iraqi dictator and explained why “doing nothing is not an option”, all but the most blinkered or virulently anti-American will agree. Only the euro frustrates the prime minister's sense that he is back in command of events (those wretched five

tests invigilated by the brooding Mr Brown, and the little matter of having to win a referendum). But if the euro will have to wait for the third term, so be it. The suggestion that by then Mr Blair will have given way to his next-door-neighbour has never seemed more fanciful. It's safe to say that the euro will not be distracting Mr Blair from his tennis.

He can rely on them

Which brings us to the final reason for the prime minister's cheeriness: the growing certainty that even if things don't go quite according to plan, the Tories will always help him out. However familiar the sight, there is nothing finer or more satisfying than to watch one's opponents self-destructing before your very eyes. It is some indication of just how bad things are in the Conservative Party that the announcement this week (to the surprise of nobody at Westminster) by a little-known junior foreign-affairs spokesman that he was homosexual was seized upon as something dramatically, bravely positive—an indication of a civilised new tolerance in Toryland.

While it is true that the pathetically bungled demotion last week of the party chairman, David Davis, wasn't ideologically driven in the conventional sense (both Mr Davis and Iain Duncan Smith are Europhobic right-wingers), it did represent a deepening split about what sort of party the Tories should be. On one side are the former supporters of Michael Portillo, who think that Conservatism will only gain a hearing when it ceases to repel large swathes of modern Britain. On the other side there are many, including Mr Davis, who are finding the self-conscious touchy-feeliness of the modernisers increasingly rebarbative, and think that it's high time to start banging the drum for traditional Tory policies, such as tax cuts. Mr Duncan Smith gives the impression of being just a confused bystander. Even the delights of Tuscany (where the Tory leader is thought to have headed) may not be able to lift his gloom.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Troubled media giants

Another one bites the dust

Aug 1st 2002 | FRANKFURT
From The Economist print edition

EPA/AP/Reuters

This week it was Bertelsmann's turn to part ways with its boss. But Thomas Middelhoff has changed the company for good

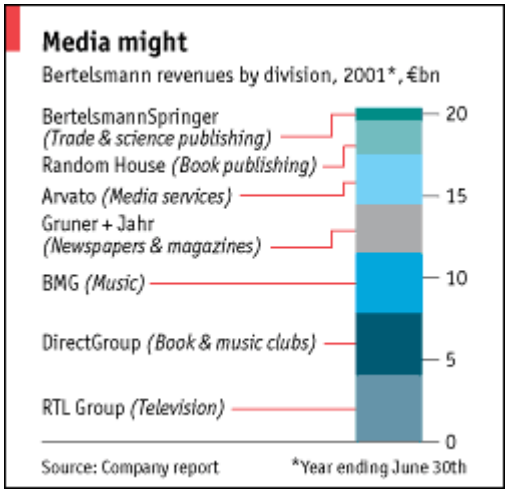
IN THESE febrile times, media groups are shedding top managers as quickly as viewers zap between channels. After Jean-Marie Messier, boss of Vivendi Universal, and Bob Pittman, head of AOL Time Warner's AOL Internet arm, the chief executive of a third media empire was pushed out on July 28th: Thomas Middelhoff from Bertelsmann (above, on the right).

Parallels between Mr Middelhoff's fate and those of Mr Pittman and (especially) Mr Messier are easy to draw. All three were disciples of “convergence”, the belief that digitisation and the Internet would draw together hitherto distinct media. The logic, given the huge economies of scale in producing digital information, whether as sound, vision or the written word, was that single companies should do the lot—and that they had to be giants.

All three companies are the product of that faith, even if they have got there by different routes. AOL Time Warner is a troubled hybrid of an old-style print-to-film-to-TV empire plus a star of the Internet age. Vivendi was transformed by Mr Messier from a water utility into something rather glitzier. Under Mr Middelhoff, Bertelsmann, a 167-year-old firm from a small town in northern Germany, eagerly embraced the digital age. Yet convergence now looks questionable, as the promised synergies have been slow to emerge.

Meanwhile, the media industry has been buckling under collapsed advertising revenues, and share prices have taken a pasting, driven down in part by accounting worries. (On July 31st the Justice Department joined the SEC in investigating AOL Time Warner's accounts.) This, in turn, has put bosses under pressure. Others may yet follow Mr Middelhoff. Steve Case, AOL Time Warner's chairman and AOL's boss before the merger, looks vulnerable. So does Disney's Michael Eisner, who has so far failed to fine-tune the firm's sputtering creative engine, and who

exercises little control over those businesses that make most of its money.



Adopted Americans

Like Mr Messier, Mr Middelhoff liked to brag that, although European by birth, he was an American at heart, and thus not only a cannier businessman but a cooler one too. Mr Messier trilled, under the aghast stare of the French state and cultural elite, that “the French cultural exception is dead”; Mr Middelhoff declared himself “an American with a German passport” and had his own trendy website. And in the end, the cultural gap between these bosses and their masters—for Mr Messier, the French members of Vivendi's board; for Mr Middelhoff, the Mohn family, which controls Bertelsmann through a foundation—was too great to bridge.

Yet there is one big difference between Mr Messier's case and Mr Middelhoff's. Mr Messier fouled up. He said one thing and did another. Vivendi took on huge debts to finance his ambitions. No wonder, when this was added to his cultural heresy, that Mr Messier left amid acrimony. Mr Middelhoff, in contrast, has left a company in decent shape and on good terms. Interviewed on German television this week, he was full of praise for Bertelsmann's 81-year-old patriarch, Reinhard Mohn, who resurrected the family firm after the second world war.

Mr Middelhoff's star turn was the *euro*7 billion ($6.8 billion) sale in 2000 of a stake in AOL Europe, for which he had paid just *euro*100m. Bertelsmann has also made bold moves into television, taking over RTL, Europe's biggest commercial broadcaster, as well as a stake in Britain's Channel 5.

There have also been mishaps, however. The purchase of Napster, an Internet music pirate, was seen by Mr Middelhoff as a chance to repeat his AOL Europe coup. But it angered executives at Bertelsmann's BMG music division, several of whom walked out, and it now looks like an ill-judged attempt to be hip. Then there is the failure, under regulatory pressure, of a planned merger of BMG and Britain's EMI. Now Zomba, an American music company whose record division is already 20% owned by Bertelsmann, has exercised an option that will force the Germans to buy the rest of the company for *euro*3 billion.

Not everybody liked Mr Middelhoff's style, either. He trimmed the traditional autonomy of Bertelsmann's divisions—a natural step, you might think, for somebody who believed in convergence. He chose a newspaper interview to announce the sale of BertelsmannSpringer, a scientific publisher. Yet the net balance was positive: good enough, certainly, to win him a new, five-year contract only a few weeks ago. Even including the full cost of Zomba, Bertelsmann's net debt at the end of this year will still be a manageable *euro*4 billion, compared with a current net debt of *euro*19 billion at Vivendi.

The new chief executive, Gunter Thielen, will not undo all of Mr Middelhoff's handiwork. BertelsmannSpringer, for example, will probably still be sold, for around *euro*1 billion. But Mr Thielen has promised more decentralisation, reversing Mr Middelhoff's integrationist strategy, and fewer eye-catching deals.

But the real reason Mr Middelhoff had to go was his attitude to the stockmarket. If Bertelsmann is to stay in the media super-league, he believes, it must one day tap the equity markets. As things stand, the firm's shares could be listed in 2005, when Groupe Bruxelles Lambert (GBL), a Belgian investment firm, will have the right to float the 25.1% of Bertelsmann that it owns. Mr Middelhoff, however, wanted the Mohn family and the Bertelsmann Foundation, which hold the rest, to sell some of their shares too. They refused. And so, Mr Middelhoff says, he “drew the consequences”.

In other words, Mr Middelhoff stepped over the blurred border between matters of strategy and those of corporate culture. He saw the equity market as a necessary tool in the company's development. Until last year, however, when GBL took its stake, in the deal that gave Bertelsmann a majority of RTL, few thought that Mr Mohn would ever accept outside shareholders. Now the limits of what the family will tolerate are clear.

Mr Middelhoff stepped over the blurred border between matters of strategy and those of corporate culture

Under Mr Middelhoff, Bertelsmann changed hugely. English is the official language. The group has an investor-relations department that deals promptly with analysts' questions; its accounts are clearer than those of many listed firms. The leap from a family-controlled company to a listed one, however, is just too large. It is to Mr Middelhoff's credit that he realised this early enough to avoid a bloodier exit.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

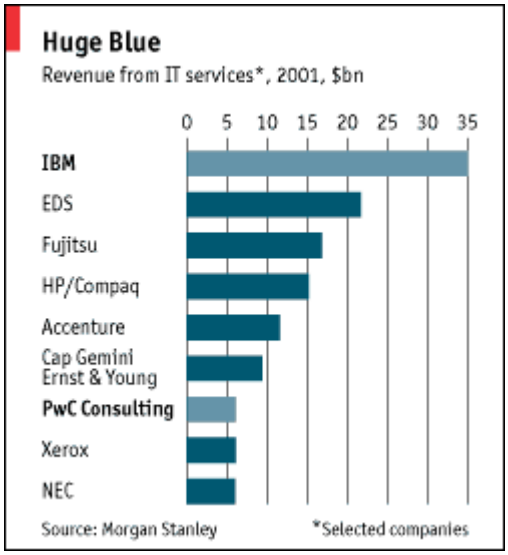
Professional services

Goodbye, Monday

Aug 1st 2002 | NEW YORK
From The Economist print edition

IBM's purchase of PwC's consulting arm may actually make sense

Get article background



AMERICA'S cheerleading bosses have not had the opportunity to whoop it up much recently. Yet for a brief moment this week, the carefree 1990s shone brightly again. On July 30th IBM said it would buy the consulting arm of PricewaterhouseCoopers (PwC) for $3.5 billion in cash and shares. Suddenly, the air was thick with words not heard in America for months. Stock analysts marvelled at the “strategic fit”, and the opportunities for growth. “A win-win deal,” enthused PwC's bankers, Morgan Stanley. “We only started talking to each other ten days ago,” said PwC Consulting's boss, Greg Brenneman. “It was almost like magic.”

Magic, indeed. A little over a year-and-a-half ago, PwC Consulting was shopping itself to Hewlett-Packard, another computer maker with ambitions in services, for a cool $18 billion. That deal fell apart when Hewlett-Packard's share price crumbled as PwC struggled to unstitch the consulting business from its patchwork of 35 partnerships across 55 countries. The lesson learned, PwC launched Operation Readiness, to prepare for a sale. More talks with Hewlett-Packard again came to nothing. So PwC said it would float its consultancy on the stockmarket, and renamed it Monday, a much-mocked choice that the company hoped would inspire images of “fresh thinking, doughnuts, hot coffee”.

IBM can take the credit for ending that particular bit of branding genius. But it has almost certainly stumped up more than PwC would have raised in a public sale. PwC Consulting is not the company it was 18 months ago. Like Cap Gemini Ernst & Young, KPMG Consulting and Accenture (formerly Andersen Consulting), PwC earns most of its money from consulting on IT projects, a business that has slumped with technology spending. And PwC Consulting had a second, more urgent problem. The collapse of Enron and the passage of a new law through Congress has made it near-impossible for accounting firms to sell audit and consultancy services to the same client.

KPMG, Ernst & Young and Andersen had already sold or spun off their consultancy businesses. PwC Consulting, in contrast, is still attached to the biggest audit firm in the world. In recent months, 22 of PwC Consulting's 100 biggest clients have said they can no longer do business with the firm, and another 16 have said that they must cut how much they do. Because PwC is its auditor, IBM itself had banned PwC Consulting from its premises.

According to its IPO filing, PwC Consulting had revenues of $5 billion in the nine months ending March 2002, down from $5.6 billion the year before. Revenues are expected to keep falling for some time. Before integrating PwC Consulting's 30,000 employees with its 150,000-strong global-services unit, IBM must finish the job Mr Brenneman was hired for in June: to restructure the firm.

Ten years ago IBM made most of its money selling hardware. As margins in that business collapsed, it reinvented itself as a services company. This transformation has taken the company only so far. IBM's consultants, say rivals, have a fine grasp of the technical issues, but less mastery of the higher-level strategic thinking. That used not to matter much. But the networked computer has put technology at the heart of strategy, and vice versa. The choices that face a car company as it designs and manages its supply-chain IT infrastructure, for instance, have become the source of its competitive advantage.

Retailers live and die by the design of their inventory-management systems, and their skill in “mining” customer information. The IT platform no longer simply serves the firm: it has become the business.

That had worrying consequences for IBM. If it failed to dominate strategic consulting, it could lose control of its customers. If other firms put together the strategy and design, IBM risked becoming a subcontractor, competing with EDS, Fujitsu and other rivals for pieces of business that the likes of Accenture deigned to farm out. Already, margins in businesses such as IT outsourcing are being squeezed in this way. “IBM had to get to higher ground,” says one banker involved in the deal.

The climb that is ahead of IBM does not look easy. The management task is to strengthen the specialist industry groups that cut across the old technology-product divides. PwC Consulting's incoming partners add political complexity to an already delicate situation—IBM has its share of fiefs and internal pricing squabbles. It is PwC's strategic thinkers who will want to orchestrate IBM's relationships with its customers. But PwC Consulting is a fraction of the size of Big Blue, so PwC's partners will be the outsiders at the combined firm. It might have been easier if the brain had bought the body. IBM will have to be careful that the limbs do not rebel.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Company bosses

Executive couching

Aug 1st 2002
From The Economist print edition

Top executives are looking for a shoulder to cry on

THESE are stressful times for chief executives. When they are not being blamed for recording poor results, they are being blamed for not recording poor results. Branded failures or cheats, they are looking for a shoulder to cry on. If their spouses' sympathy is exhausted, they are turning to executive coaching, a one-to-one, high-cost service (running to thousands of dollars a day) that companies increasingly offer their top-tier executives. Executive coaching is growing by about 40% a year, says Susan Bloch, head of coaching at the Hay Group, a human-resources consultancy.

Its rapid growth has led some to worry that coaching is attracting the wrong sort—too many boffins from the classroom and hulks from the gym, says Steven Berglas, a psychotherapist whose website describes him as “the authority on narcissism and burnout among the highly successful”. In an article in the June issue of the *Harvard Business Review* (HBR), Mr Berglas writes that some of the “former athletes, lawyers, business academics and consultants” who have become executive coaches “do more harm than good”.

That is because, unlike Mr Berglas, they cannot spot “the difference between a problem executive and an executive with a problem”. The first needs training; the second needs help. Nigel Nicholson, professor of organisational behaviour at the London Business School and author of “Managing the Human Animal”, distinguishes between training, coaching and counselling, and says that executives need to think carefully about which they want before they start paying so richly for it. Coaching should be a matter largely of listening. “I'd rather coaches were too passive than too active,” he says. Those executives who can't afford one should try keeping a diary, or a dog.

One of the biggest problems for top executives at the moment is the absence of mountains to climb. Mergers are out, the Internet is old hat, and risk-taking is off the agenda. “Successful people are conquerors,” says Mr Berglas. Take away the adrenalin of business conquest and bosses will seek it elsewhere. Why else, he asks, did Jack Welch, just retired from the top of General Electric, risk his marriage by launching into an affair with the then editor of the HBR, somebody from a profession not noted for its discretion? And why did Dennis Kozlowski, at the time the boss of Tyco and a man worth several hundred million dollars, allegedly risk a long prison sentence just to avoid a sales tax of $1m on his new art collection? Not for the money, surely?

You can't train away that sort of behaviour, says Mr Berglas. It's psychotic. It needs a couch, not a coach.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Airlines

Signs of life

Aug 1st 2002
From The Economist print edition

Some airlines see breaks in the clouds, but alliances may not be helping

Get article background

TIMES are as tough as ever for airlines in the United States. This week Vanguard, an American low-cost carrier, joined the long list of airlines that have gone bust. Traffic recovery in America stalled in June, and a queue has formed for more federal bail-outs. Analysts now expect only Southwest Airlines, the leading low-cost carrier, to make a profit this year, as the rest of America's carriers rack up combined losses of more than $5 billion.

In Europe, however, things seem to be looking up in some respects, even if traffic is still 5% down on a year ago, and 15% down on flights across the Atlantic. Big capacity cuts by carriers such as Lufthansa are starting to pay off—witness the recent rise in business fares from Europe's main airports to America (see chart). Transatlantic business fares from London are still rising by 6% a year (as well as being nearly 60% higher than fares from Frankfurt). Europe's flag carriers, it appears, are still able to milk their long-haul travellers to make up for short-haul traffic lost to low-cost airlines.

They also seem to be successful in sidestepping antitrust concerns. On July 26th the European Commission lifted its threat to veto the transatlantic alliances of Lufthansa, Air France and KLM. The SkyTeam alliance, built around Air France and Delta Air Lines, will now be able to bolt on Alitalia. The commissionrecently approved the Italian airline's recapitalisation plan, despite its involving yet more state aid. The SkyTeam link and the room for expansion at Charles de Gaulle airport have been behind the dramatic improvement in Air France's fortunes. This week it was propelled to the top of the government's privatisation list; the state plans to reduce its stake from 54% to below 20%.

Germany's Lufthansa, too, is on the mend. It said this week that it now expects to make an operating profit of *euro*500m ($494m) this year, compared with a forecast of *euro*400m made in June. Even Spain's Iberia, a basket-case for most of the past decade, made an operating profit of *euro*106m in the first half, compared with a loss of *euro*16m in the same period last year.

Iberia and British Airways (BA), both part of the oneworld alliance, have been cleared to pool their services in Europe and on longer-haul routes. This could be a valuable consolation prize for BA, which is still forbidden by American authorities to ally with American Airlines across the Atlantic. (The two carriers cannot even offer frequent-flyer miles on each other's flights.) This regulatory red light puts BA at a competitive disadvantage, now that Lufthansa, Air France and KLM have newly endorsed pooled arrangements with their respective American partners.

But are airline alliances worth the bother? Attractive as they may be for marketing and for boosting revenues (by 15-20% on average), a recent survey by Cap Gemini Ernst & Young, a consultancy, and *Airline Business*, a trade magazine, found that two-thirds of leading airlines were disappointed by their alliances. The big problem has been finding ways to act together to cut costs, other than sharing airport lounges or city-centre offices.

The big problem has been finding ways to act together to cut costs

Even joint purchasing to reap economies of scale has proved difficult. SkyTeam, for instance, has a global deal to buy Coca-Cola in bulk for all its members, but no alliance is remotely near jointly purchasing aircraft from Boeing or Airbus. Use of the Internet for buying parts and supplies has developed, but not at the level of alliances, says the study. Rather, it has come through industry-wide outfits, such as Cordiem and Aeroxchange. As for marketing over the Internet, the big advance has again been through industry-wide portals, such as Orbitz in America and Opodo in Europe.

The chief executive of one member of the Star alliance, built around Lufthansa and United, complains that time is wasted in endless committee meetings. Such problems are leading to a more flexible approach, with some alliances recognising that they should encourage common working but leave individual airlines free to opt out of some projects. As Rod Eddington, chief executive of BA, has always maintained, the biggest advantage of alliances is the scope for bilateral working arrangements—such as the pooling of services by BA and Qantas—under the big umbrella of the alliance, rather than projects involving all members. As the lofty alliance ambitions of the mid-1990s confront the realities of 2002, that view is moving into the mainstream.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Corporate wrongdoing in Japan

A whiff of impropriety

Aug 1st 2002 | TOKYO
From The Economist print edition

Corporate misbehaviour is hurting consumers as well as shareholders

AP

Past its sell-by date? Nonsense

DINOSAURS from Jurassic Park offer visitors at Universal Studios Japan some out-of-the-ordinary thrills. But the theme park, which opened in March 2001, has been giving customers scares of a more unpleasant kind too. Last month it confessed that it had served beef, caviare and salami that was as much as nine months past its sell-by date, after falsifying labels. It also admitted that a drinking fountain had been pumping out untreated industrial water for nine months. Once discovered, this was quickly fixed, but Universal Studios, part of Vivendi Universal, a troubled media group, failed to alert local health authorities. On July 29th, after finding excessive levels of bacteria in the water, health officials banned the use of all drinking fountains in the park.

In America, companies such as Enron and WorldCom deceived their shareholders by fiddling their accounts. In Japan, the problem is twofold. Corporate misbehaviour, from dodgy accounting to food fraud, is hurting not just shareholders but customers too. Universal Studios is only one of many erring companies that people prefer to shun.

Sales at Mister Donut shops, run by Duskin, a cleaning company, fell by some 15% when it emerged in May that the doughnut chain had sold more than 13m meat dumplings—some knowingly—that contained a banned additive. Marubeni Chikusan, an arm of Marubeni, a big trading-house, was caught passing off 700 tonnes of Brazilian chicken as higher-priced domestic poultry. And it emerged that Kyowa Perfumery, an additives maker, had for 30 years been shipping banned flavourings to unsuspecting companies such as Kentucky Fried Chicken and Meiji Seika, one of Japan's biggest confectionery manufacturers; their products have had to be hastily recalled.

As consumers have fled, so too have investors. The shares of Snow Brand, the country's biggest dairy producer, have fallen by 70% since it poisoned some 15,000 people by recycling old milk and failing to clean factory pipes. Earlier this year it emerged that, to get state subsidies, the firm's food subsidiary had passed off 30 tonnes of imported beef as local meat. Snow Brand is now fighting for survival.

Blame, in part, heavy regulation and over-protection for such troubles. The agriculture ministry engenders complacency in the food industry by guaranteeing high prices and imposing hefty tariffs on imports. Nor are such problems confined to one industry. Mitsui, a trading firm, was recently accused of rigging bids for a public-works project on a Russian island, with the help of the foreign ministry, leading to arrests at both company and ministry.

Misconduct is easier to cover up in Japan than in Europe or America. Lifetime employment requires employees to display unswerving loyalty. Rigid hierarchies stifle internal communication. Workers find it hard to blow the whistle on wrongdoing—witness Mitsubishi Motors and Bridgestone, which managed for years to cover up defects in cars and tyres, respectively. Nor is it easy for outsiders, such as consumers and investors, to get companies to mend their ways, since many rely more on bank loans than on debt or equity markets. Even when firms issue shares, a big, albeit shrinking, chunk is usually held by their corporate chums, who rarely call for better governance.

Big dodges tend to be discovered

With so much stacked against them, foreign or individual investors are deterred from pursuing reform. As in America, shareholders often cannot trust accounts to give an accurate picture of a company's fortunes. Although accounting rules

have been tightened a bit in recent years, they are still not tough. Big dodges tend to be discovered only after companies go bust, such as when Yamaichi Securities, a top broker, failed in 1997.

only after companies go bust

Unlike America, which has rushed to pass new legislation to curb corruption and reform auditing (see article), Japan has done little to prevent a repeat of past accounting fiddles. For example, it has yet to create an independent body to oversee auditors, who are rarely pulled up for lax audits. There are, though, a few glimmers of progress. In a rare move, Shin Nihon, the largest local accounting firm, this week agreed to pay ¥200m ($1.7m) to the Resolution and Collection Corporation to settle a claim that it had helped Long-Term Credit Bank cook its books. But Shin Nihon denied wrongdoing, only admitting that it had failed to meet public expectations of an auditor.

The collapses of Enron and WorldCom came just when Japan was grasping for a model that allows for transparency and accountability, says Chris Wells of White & Case, an American law firm. That the American model turned out to be flawed has undermined reform efforts. Bureaucrats and politicians opposed to change may now use Enron and WorldCom as excuses to block much-needed reforms in accounting and corporate governance.

Shareholders may weep, but consumers at least have won a small victory. Their fury at the spate of food scandals prompted politicians to pass a bill in June, unusually quickly, introducing prison terms and stiff fines for companies that falsely label food.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Car hire

Budget deficit

Aug 1st 2002
From The Economist print edition

The car-hire business is in turmoil

ON JULY 29th the Budget Group sought protection from its creditors under Chapter 11 of America's bankruptcy code. It was the latest downward step in a sorry descent for the world's third-biggest car-hire company, and more evidence in support of Jack Welch's dictum that you should be number one or two in your business, or get out.

Budget was hit hard by the attacks of September 11th. Car-rental revenues in America fell by only 3.6% in 2001, but Budget's fell by 11%—even though the company has relatively few of its outlets at airports, where travel was most severely hit. Unlike its main rivals, Hertz (owned by Ford) and Avis (owned by Cendant), it is not part of a conglomerate that could cushion the blow. By December last year its market capitalisation had fallen below the New York Stock Exchange's minimum requirement, and the company was delisted at the end of March.

It tried hard to claw its way back. In February it brought 72-year-old Morris Belzberg on to the board, following the increasingly common corporate practice of calling greybeards to the rescue. Part-owner of the Pittsburgh Penguins ice-hockey team, Mr Belzberg was chairman of Budget from 1986 to 1991, when he retired. The company then started to slash prices, this month desperately offering cars for as little as $15.99 a day.

But there was no getting away from the fact that car hire is a capital-intensive commodity business with wafer-thin margins—made even thinner by the growing use of the Internet. “Customers are getting into the habit of visiting our website every week to see what's being offered,” said Mike Gavelek, vice-president of marketing, to justify the special offers. Price wars like that, however, invariably defeat the contestant with the least padding.

There are only two options for a company in such a position: to become bigger or to become different. Hertz, the biggest already, is trying to differentiate itself more from other booths at the airport by introducing what it calls its Prestige Collection. Customers can order Jaguars, Land Rovers and Volvos with a “hand-held service” for $70-100 a day. Some of them use the service as an extended test drive—which helps Hertz's owner (Ford) to sell more cars. It owns all three marques. The scheme was launched in about 20 American locations last year and will soon be offered more widely. This is a turnaround from the days when car makers used their rental fleets as a depository for slow-moving models (such as Ford's Taurus).

The only option for Budget now is to get bigger and try for economies of scale. It has been in talks with Cendant for some time about a deal that would merge it with Avis and make it the second-biggest in the business. But those talks broke down last weekend. Chapter 11, says Sandy Miller, Budget's chief executive, “will pave the way for new capital investment in the company.” Budget expects to announce a new deal within a couple of weeks. Whatever it is, it will bring little comfort to the firm's long-suffering shareholders.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Generic drugs

A good week for copycats

Aug 1st 2002
From The Economist print edition

A legislative coup for makers of generic drugs, but one that may be reversed

AMERICA'S generic-drug makers have long complained that loopholes in the legislation governing the introduction of copycat pharmaceuticals—the so-called Hatch-Waxman amendments—make it tough for them to come to market. On July 31st the Senate moved to make their lives easier. It approved a bill whose more controversial reforms include a restriction on the so-called "30-month stay", which has in the past allowed some patent-holders to delay the introduction of generic versions of their precious blockbusters for years on end. The new legislation will make it harder to block generic competition for more than two-and-a-half years.

This reform echoes changes proposed by the Federal Trade Commission (FTC), which this week concluded its investigation of the pharmaceutical industry. The FTC also wants to see greater disclosure of agreements between generic and brand-name drug companies, to avoid any possibility of a patent-holder trying to keep a generic rival off the market by paying it to stay away.

According to Senate Democrats, the latest reforms could reduce America's burgeoning drugs bill by some $60 billion over the next ten years, a figure hotly contested by brand-name drug makers. Nor are the patent-holders happy with a flourish tacked on to the generics bill that would allow pharmacists and drug wholesalers to import prescription medicines from Canada, where prices for many products are lower.

Congress passed similar reimport legislation two years ago, but objections from the health secretary blocked its enactment. Despite provisions in the new bill to deal with these concerns, the Food and Drug Administration has already expressed worries about the safety of imported pills.

There is not much chance of the generic reforms surviving in their present form, says Nancy Bradish Myers of Lehman Brothers. The House of Representatives has yet to tackle the issue, and consensus on drug matters is hard to come by these days. Already, the House and Senate have failed to agree on legislation to provide America's elderly with government-sponsored prescription-drug insurance. Since both sides of the political divide badly need a victory on the drug front to satisfy voters, peace between them looks as unlikely as an *entente cordiale* between generic and brand-name drug makers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Face value

Bidding for recognition

Aug 1st 2002
From The Economist print edition

John Gokongwei comes out of retirement for the battle of his life

OFFICIALLY, John Gokongwei retired last year on his 75th birthday, handing over the reins at JG Summit, his sprawling business empire in the Philippines, to his son Lance. Mr Gokongwei claimed that he planned to spend his time travelling and reading biographies of Genghis Khan, Napoleon, Lee Kuan Yew and other great figures whom he admires. Yet it turns out that Mr Gokongwei had retired in the way that ethnic Chinese patriarchs (including Mr Lee) tend to: ie, in reality, not at all. This June, Mr Gokongwei jumped back into the headlines with the biggest and most controversial idea of his entire career.

The proposed deal, if it goes through, will mean that the leading Filipino tycoon of Fujianese descent, Mr Gokongwei, has bailed out the leading (but flailing) Indonesian tycoon of Fujianese descent, Anthony Salim, by paying $617m for most of Mr Salim's Philippine assets. Those assets include not only a Manila property developer but PLDT, the country's fixed-line telecoms incumbent and a stodgy but eminent blue chip.

PLDT's employees despise Mr Gokongwei, whom they regard as a penny-pincher bent on curtailing their benefits. Its management, led by Manuel Pangilinan, the chief executive, is even more hostile. Mr Pangilinan acted for two decades as the Salim family's trusted lieutenant and bought them PLDT in 1998. Now he feels betrayed.

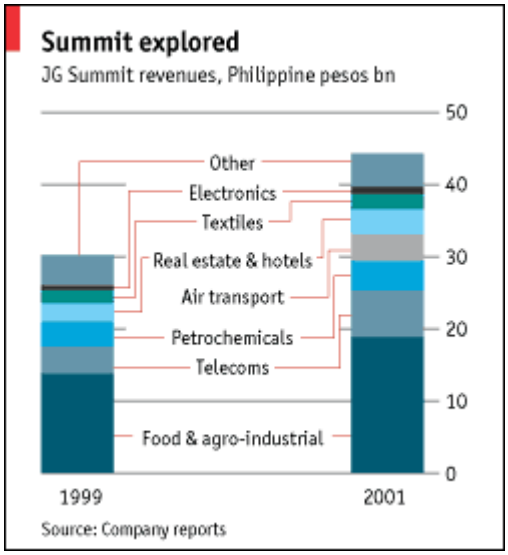
The result is the most antagonistic Asian corporate battle for years. This week PLDT refused to let Mr Gokongwei's people conduct their due diligence, arguing that no competitor should be afforded that privilege (Mr Gokongwei already has a telecoms business). PLDT is also suing its parent, First Pacific (the Salims' holding company in Hong Kong), for inadequate disclosure, in a court in New York, where PLDT has a listing. Mr Pangilinan and other managers are now said to be seeking out financial support for a management buyout.

The big mystery concerns neither the motive of Mr Pangilinan, who fears for his career, nor that of the Salims, who never recovered from the Asian financial crisis and are retrenching. It is about Mr Gokongwei. He is rich already, and on the way out. He believes strongly in the superiority of Chinese business culture, with its Confucian hierarchies, family loyalties, thrift and secrecy. Why would he want the Salims' 24.4% stake in PLDT, thus becoming a shareholder in a company that must by law air all its dirty laundry? Why would he want to chair a board that cares nothing for Confucius and would surely oppose him?

One explanation, popular at the dinner tables of the Filipino great and good, is that Mr Gokongwei, in his old age, is motivated less by money than by a desire to join these very tables. Indeed, names such as Gokongwei (a long form of the Chinese name Go) are uncommon at tables seating Ayalas, Roxas, Ortigas or Sorianos—the *mestizo*-Spanish dynasties that make up Filipino high society. Here, as in much of South-East Asia, the Chinese may be rich but they rarely enjoy the highest social status.

Controlling PLDT, a national bellwether, would certainly get Mr Gokongwei invited to the right dinners. He might even be good at running it. With his trading mentality and an emphasis on diversification, he typifies Chinese business strategies—he is in food, textiles, retailing, hotels, property, banking, petrochemicals

and telecoms, and even runs an upstart airline (see chart)—and his rise has seemed unstoppable. But he is also atypical in that he appears to have achieved all this without being a crony of the Philippines' political leaders. By reputation he is certainly tough and cunning, but he is not sleazy.



What lends the seat-at-the-table theory credence, moreover, is an episode that occurred as long ago as 1976, but was still the defining moment in Mr Gokongwei's career. At the time, he was a large shareholder in San Miguel, a Filipino brewer and national corporate icon. Mr Gokongwei wanted a seat on the board. In an epic meeting attended by 95% of the shareholders, he debated against the board (including, yes, Ayalas, Roxas, Sorianos and Ortigas) but lost. He tried twice more but was rebuffed. His brave struggle won him fame, but the defeat never stopped rankling.

Should JG Summit's minority investors now fear that their money is being splurged on a tycoon's parting vanities? Absolutely not, says Mr Gokongwei. “I don't care if I'm in some pantheon,” he says. “I'm invited to three parties a week, but I don't go.” In any case, he believes in meritocracy and thinks that “the *mestizo* Spanish are as finished here as the Wasps in America”. The mere suggestion that ego enters into the deal causes offence. “My father is not exactly vain,” says Lance Gokongwei, glancing at the stains on the shirt stretching over Gokongwei senior's pot belly.

Putting family above assets

Yet if Mr Gokongwei is not after a seat at the table, then what is this battle all about? The way he tells it, the deal came to him just as all deals take shape in the “bamboo networks” of overseas Chinese. Anthony Salim pulled over a chair at a conference dinner and made him an offer. The price was good, and a few conversations between the families (but not the management) later, it was all down to handshakes.

This is consistent with Chinese business mystique. One is supposed to be emotionally attached only to family, never to assets. PLDT, Mr Gokongwei implies, is no different from the soap bars that he peddled from his bicycle as a youth: an opportunity for a good trader to make money. And if PLDT's management scuppers the deal? “It's Salim's problem, not mine,” says Mr Gokongwei. “I haven't paid anything yet.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

American trade policy

Promoting the noble cause of commerce

Aug 1st 2002 | WASHINGTON, DC
From The Economist print edition

Hulton

With fast-track negotiating authority won, will the Bush administration actually push for freer trade?

Get article background

SHORTLY before sunrise on what was officially the first day of their summer break, bleary-eyed congressmen gave global trade a much-needed shot in the arm. By a three-vote margin, the House of Representatives agreed on July 27th to grant George Bush “fast-track” negotiating authority on trade. This allows the White House to strike trade deals which Congress will then vote for or against, but may not amend. As *The Economist* went to press, the Senate—traditionally keener on free trade than the House—was also due to pass the fast-track bill before its own summer break started on August 3rd.

For the Bush administration, facing criticism over its handling of America's corporate scandals, the fast-track vote was a notable success. After it created the procedural device in 1974, Congress bestowed fast-track authority on five successive presidents, with scarcely a debate. In the 1990s, however, trade became a controversial and divisive issue at home. Democrats, in particular, grew ever more protectionist, often using a fig-leaf of concerns about labour and environmental standards abroad. Lawmakers from both parties were worried that any new free-trade agreements risked eroding America's tough anti-dumping and other so-called trade-remedy laws. Thus, despite an economic boom under his presidency, Bill Clinton twice failed to win back fast-track authority after it lapsed in 1994.

Against that background, Mr Bush's victory is impressive, particularly coming so close to mid-term congressional elections that may well see the Republicans lose ground. The omnibus trade package that passed included not only fast-track authority, but also the renewal—the sizeable increase, indeed—of a special roster of trade preferences for Andean countries designed to reduce their farmers' dependence on growing coca leaves. There was also a renewal of the system of special trade preferences for the very poorest countries. Both these concessions had lapsed at the end of last year.

The fast-track bill itself deals with some of the issues that have split lawmakers for almost a decade. It instructs America's trade negotiators to regard labour and environmental goals as “principal negotiating objectives”. That wording does not bind America to achieving any particular objectives on labour and the environment, but it is stronger language than Republicans were previously ready to accept.

The bill also contains provisions designed to protect America's cherished anti-dumping rules. Congressmen insisted that not weakening the country's trade-remedy laws should be a negotiating objective. Trade officials must give Congress advance notice if they agree to any changes in these rules. That outcome is better than an earlier Senate amendment that would, in effect, have excluded trade rules from fast-track; but it is a measure of how much America's lawmakers care about the issue.

The biggest Democratic victory is a big expansion of assistance to American workers hurt by freer trade. Congress has agreed to spend up to $12 billion over the next decade. Eligibility for assistance has been broadened to include farmers, ranchers and even secondary workers—those employed in businesses that supply factories that close down because of foreign competition. Dislocated workers will receive a tax credit for 65% of the cost of health insurance. Congress also agreed to test a pilot project for wage insurance, under which dislocated workers would get some compensation for lower wages in their new jobs. Taken together, these provisions address many fears about freer trade.

Despite all these compromises, American lawmakers are far from building a new consensus for free trade. The fast-track vote was largely along party lines, and even many Republicans, who voted overwhelmingly in favour (190, compared with 27 against), did so more thanks to Mr Bush's arm-twisting and to goodies offered to their districts than out of love for free trade. The administration has itself in recent months put tariffs on steel and lumber and supported a vast increase in farm subsidies—albeit all to boost votes for fast-track, if you believe some officials.

No clear mandate

Mr Bush's victory was narrow, and he paid a protectionist price for it. It is hard, therefore, to gauge how much this vote will improve the prospect that America will now assume its rightful mantle of global leadership in trade. The risk is that the administration will concentrate on the easiest deals, which least enhance international exchange. For instance, bilateral negotiations with Chile and Singapore are well advanced, and final agreements are possible within months. The president's top trade negotiator, Bob Zoellick, talks of trade deals with Australia, Morocco, Central America and southern African countries. Yet the prospects for a Free Trade Area of the Americas, once a Bush priority, look ever more uncertain. Argentina, long an ally in the push for hemispheric free trade, is in political and economic chaos. Brazil, long the most sceptical, is itself in trouble ahead of elections in October.

The biggest potential prize would be the conclusion of the Doha round of global trade talks. Launched last November largely because of Mr Zoellick's efforts, the negotiations are supposed to bring a new wave of trade liberalisation, designed particularly to benefit poor countries, by January 2005. The negotiations have made some progress, though mostly on procedural matters only. There has been little headway on the really tough issues—particularly those that concern poor countries, whose support is crucial for the Doha round's success.

The Doha round will not succeed without American leadership. Fast-track offers the possibility of that. Mr Zoellick's recent proposals for cutting government support for farmers—a key aim of the Doha agenda—suggests that the Bush administration could yet rise to the challenge. The American proposals are bold. Trade-distorting subsidies should be limited to 5% of a country's total agricultural production. Tariffs should be reduced from today's worldwide average of 62% to 15%. And export subsidies should be eliminated. A date should be set, the Americans suggest, for the eventual elimination of all farm tariffs and trade-distorting support. Under this plan America would cut this type of support from $19 billion to $10 billion a year. Europe would have to make much larger cuts—from $60 billion to $10 billion.

Demanding greater cuts from those with higher subsidies infuriates the Europeans and the Japanese. In the face of protests from France and other European Union members, the European Commission has proposed farm reforms that imply a big reduction in trade-distorting support; yet the commission's proposals are less ambitious than Mr Zoellick's.

At the same time, however, such demands are crucial if Mr Bush is to sell any Doha deal at home. America's farmers will be persuaded to give up newly increased subsidies only if they see that farmers abroad enjoy no better support. On anti-dumping, the dichotomy is even starker. America's trade partners are determined to see, as part of a Doha round, that anti-dumping rules are used much less indiscriminately. But this is anathema to American lawmakers. Fast-track gives the Bush team the chance to square all these circles, though with no guarantee of success.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Audit firms

Tough new world

Aug 1st 2002
From The Economist print edition

The accounting industry expects more litigation and higher audit fees

AS GEORGE BUSH signed a bill to fight corporate fraud this week, the accounting profession woke up to an unfamiliar world. Accountants in America are to have a strict new supervisor; they will be banned from providing many services to their audit clients; and their foreign arms will be subject to American rules in ways that they have never been before. The Sarbanes-Oxley act will also have consequences for chief executives, lawyers and others. But its most transforming impact will be on the practices and economics of the accounting industry.

Most of all, the heads of the biggest accounting firms in America worry that the legislation could lead to more lawsuits. The act's new oversight board aims to bring more and speedier discipline against rogue auditors. That could be an invitation to shareholders to sue, says Jim Turley, chairman of Ernst & Young. Above and beyond the new law, which also gives shareholders more time to take legal action, mistrust of auditors is bound to mean more litigation. To compensate, PricewaterhouseCoopers is preparing to charge higher fees to companies whose business it considers more likely to bring trouble.

Before, when accountants lobbied against bans on services to audit clients, they argued that their business would suffer. Now that the worst has happened, they profess to be optimistic. The Securities and Exchange Commission (SEC) had already outlawed most of the eight services specifically banned by the new law, they point out. They have already taken steps to resolve the issue of information-technology consulting, the most significant new ban in the act. All have either sold, or announced plans to sell, their consulting arms (see article).

Yet even services that escaped the forbidden list must now be approved by a company's audit committee. Of great concern to the accounting firms is whether committees will allow them to provide tax advice. Audit committees at a few of his firm's clients, says Dennis Nally, head of PricewaterhouseCoopers in America, have decided that their auditor must do nothing but audit, though he expects most to be more accommodating.

Even under the worst scenario, firms say that they can still sell other services to companies they do not audit. The risk, though, is that the various businesses of the big four firms—corporate finance, legal advice, risk management, to name a few—may not be able to hold their ground without the prop of the audit relationship. As a whole, the industry could lose market share to non-accountants.

The act, with its threat of litigation, should also impel accounting firms to audit more thoroughly. The result will be higher labour costs, which they hope to pass on to their customers. Eugene O'Kelly, chairman of KPMG, expects fees to go up by a fifth, a jump similar to the one that followed the passing of a law in 1991 which required auditors to do more work on banks after the savings-and-loan crisis.

The SEC is now under siege by the European Commission, Britain and Japan, all demanding exemptions from the “foreign public accounting firms” section of the act. It pushes further than the SEC ever did in overseeing the auditors of foreign companies that are listed on American stock exchanges. Foreign accounting firms that play a substantial role in producing an audit report on a company with an American listing will have to register with the new oversight board and obey American rules, even if they do not issue the audit report themselves. Henri Olivier, head of the European Federation of Accountants, calls this unacceptable imperialism.

After the fall of Andersen, Enron's auditor, the fact that only four big firms remain bothers regulators. The new act calls for a study on what can be done about it. In Britain, the trade secretary has said that the Office of Fair Trading should look at what the industry's high level of concentration means for

competition. There is little evidence, though, to suggest that audit pricing is uncompetitive. Quite the opposite: firms chasing Andersen's old clients, partners say, have offered to do the job for less. PricewaterhouseCoopers has been fined recently in America for an independence violation, and KPMG in Ireland for bad auditing. The bigger worry is that if another big firm ever follows Andersen down, there would then be only three.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

European insurance

Hard hit

Aug 1st 2002
From The Economist print edition

Worries about the financial health of European insurers

IT WAS, not that long ago, considered an unenviable problem: Europe's insurers had too much capital sloshing around. During the long bull market the returns on their investments—mainly equities and bonds—easily covered insurers' liabilities, and also provided a comfortable cushion of safety in the case of unexpected surprises. What was wrong was that lots of capital sloshing around led to fierce rounds of price-cutting among insurers. Yet how much worse, now, has been the brutal effect on insurers of tumbling stockmarkets.

In a few swift months the industry has swung from being greatly overcapitalised to being thinly endowed indeed. To repair their fortunes, European insurers have been forced to raise prices, sell assets, shrink operations and even get out of insurance altogether. Of course, selling assets includes selling shares, ever more of which have to be sold as the insurers' cushion gets thinner. That has led to suspicions that insurers are contributing to self-reinforcing falls in stockmarkets.

Only European technology companies have fared worse than insurers in this bear market—even telecoms has done better. By the end of July European insurers' shares were down by 60% from their peak, compared with a 42% fall in the MSCI Europe index. Last week Aegon, a Dutch insurer, and Fortis, a Dutch-Belgian group, issued profit warnings. Germany's Allianz has also said its profits will be below expectations. And France's AXA had to deny it had capital problems, after its shares dropped on rumours about its equity losses.

An overreaction? Certainly, says Stephen Dias of Goldman Sachs, movements in insurers' shares are these days mostly driven by rumours and innuendo. A report by BNP Paribas, a French bank, says that investors have sold too much, too fast. Even so, worries about the capital strength of some European insurers are justified.

The story varies greatly: between life and non-life insurers, and between countries. Life insurers have been hit much harder by falling returns on their investment portfolios than have non-life insurers. Life insurers' main function is to gather and invest assets for the medium or long term. People may buy more life-insurance policies when stockmarkets seem to be heading up, and they may try to cash out when markets go down. Life insurers cannot offset poor investment returns with higher insurance profits. Non-life insurers, on the other hand, can try charging customers more, say for their car insurance.

British life insurers are in especially parlous condition. They invest more than half—and sometimes as much as four-fifths—of their portfolio in equities, much more than do American and continental European insurers. They also tend to write policies with guaranteed returns and so cannot reduce payouts in hard times.

To help the insurers, the Financial Services Authority (FSA), Britain's regulator, has eased the “resilience” test used to determine the capacity of life insurers' investment portfolios to absorb losses. Instead of having to be able to withstand a 25% drop in equity markets at any time, and still meet their financial obligations, insurers must now show they can withstand a drop by a quarter of the average level of equity markets over the previous three months. The FSA denies reports that it is planning to relax the requirement still further, yet the pressure is still on.

German life insurers invest less in equities than do their British peers, but they are also fragile. Last week Standard & Poor's, a credit-rating agency, revised its outlook on the German life-insurance market to negative. Moody's, another agency, acknowledges that German life insurers' increased preference for investment in equities in recent years has put them at significantly greater risk today.

Nor are equity investments the only source of trouble. Aegon owned $200m-worth of the debt of (now bankrupt) WorldCom. Prudential, a British life insurer, lost $230m on its portfolio of American bonds in the first half of this year.

No wonder policyholders and investors are worried about solvency, especially if investment returns continue to be low. As it is, capital-adequacy ratios, the main measure of solvency, vary widely across the industry. According to Morgan Stanley, Europe's most adequately capitalised firms in the industry are Germany's Allianz, Italy's Generali, Aegon and ING, another Dutch group.

Solvency has a different meaning for insurers than for other companies, including banks. When an insurer does not meet its solvency requirements, it is not bankrupt. For insurers, solvency regulation is designed to protect policyholders and to prevent companies from taking on too much business without sufficient capital.

And that is precisely the problem. In an environment of low interest rates and low investment returns, there is little to rebuild insurers' capital cushion. Solvency may not equal bankruptcy, but it certainly worries investors.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Nigeria's currency black market

Mission impossible

Aug 1st 2002 | LAGOS
From The Economist print edition

Nigerians do not always obey their laws, especially the silly ones

100% paralysis

BACK when Nigeria was a military dictatorship, currency controls were a device for enriching generals. The president's chums bought dollars at the cheap official exchange rate, sold them on the black market at a more realistic one, and made effortless millions. Now that Nigeria is a democracy, things are better. Controls are still in place, but the naira is no longer absurdly overvalued. A black market for dollars persists, however, fuelled by tax-dodgers.

Traders in the country's vast informal sector are skilled at ducking taxes—as they need to be, because some levies are extortionate. Nigeria produces almost nothing but crude oil, so even the most basic consumer goods have to be imported. These are clobbered with tariffs: 100% on imported lavatory paper, for instance, and 150% on water or beer. Traders evade these duties by paying for smuggled goods with black-market dollars.

To explain: importers who buy dollars through official channels must specify what they plan to import. This leaves a paper trail, making it tricky to avoid tariffs. But if they buy dollars on the black market (for a premium), the absence of forms makes it easier to elude customs. The Central Bank of Nigeria (CBN) reckons importers are the biggest buyers of black-market foreign exchange—to the tune, others say, of $5 billion a year, around a sixth of GDP.

Last year, customs agents tried to enforce a “100% inspection” policy on all goods entering Nigeria. That paralysed the country's ports. Instead of paying the full duties, importers simply abandoned their containers on the docks. So now the CBN is trying to curb smuggling in a less disruptive way, by hounding the banks that supply the black market with dollars.

Many Nigerian banks earn the bulk of their profits by “round-tripping”—buying dollars from the central bank at the official rate and reselling them to smugglers for a big mark-up. In April, the CBN imposed fines on 22 local banks and suspended their foreign-exchange licences, ostensibly for not reporting transactions. The central bank could not prove it, but it suspected that the reason the banks did not keep proper records was because they were round-tripping. The banks complain that they have been unfairly singled out and made scapegoats for an offence that everybody commits.

Despite the show of toughness, the central bank will have trouble stamping out the black market unless it relaxes currency controls. “It's like treating the ringworm and ignoring the leprosy,” says Bode Augusto, who runs a credit-rating firm in Lagos. Some rules are bizarre. Nigerians may buy dollars at the official rate to send their children to high school and university abroad, but not to primary school.

To be fair, the CBN has allowed the naira to slide recently. Since May, it has fallen more than 10%, to 134 to the dollar. The spread between the official and unofficial exchange rates has tumbled from 20% to 7%. To deflect criticism that it is debasing the national currency, the CBN recently changed the way it sells foreign exchange. It now auctions dollars to the highest bidder, which allows it to blame devaluation on market forces. Or, indeed, on the politicians, whose profligate spending (prompting the World Bank to announce a halving of its lending to Nigeria this week) is the root cause of the naira's weakness, but who like to change their enormous naira salaries into dollars at a favourable rate.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

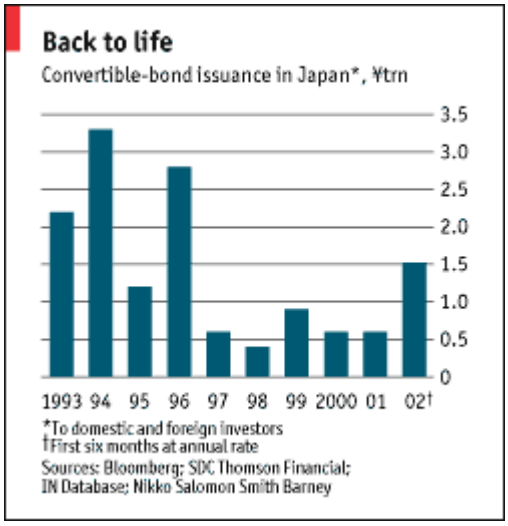
Japanese convertible bonds

Know your customer

Aug 1st 2002 | TOKYO
From The Economist print edition

After some quiet years, a strange revival

SOMETHING curious is happening in Japan's market for convertible bonds. In the first half of the year, some ¥760 billion ($5.9 billion) worth of convertibles were issued, more than in all of 2001. Investment bankers predict that new issues this year could reach levels not seen since the mid-1990s (see chart).



At first blush, the new popularity of convertibles—bonds that can be converted into shares at a pre-fixed price—seems bizarre, particularly from an investor's perspective. The latest batch comes with conversion premiums of up to 38% above the current share price, a long way from once-normal levels of 2-3%. That means investors will have to wait much longer—or even in vain, given today's troubled stockmarkets—before they can convert their bonds into equity. Neither do convertibles offer attractive rates of interest, if indeed they offer interest at all. Most issues these days are zero-coupon bonds with long maturities. Yet convertibles are being snapped up, largely by foreign investors, as fast as companies can issue them.

Much of the supply has come from big companies, which use the proceeds to pay down old debts, meet restructuring costs or even make acquisitions. Last month Mitsui Fudosan, Japan's biggest property developer, issued ¥80 billion of convertible bonds. In May Fujitsu, the largest computer maker, sold ¥250 billion, and Mitsubishi Corporation, the top trading house, ¥150 billion-worth. In an issue launched for Nikon, a camera maker, demand was 16 times greater than supply; the Mitsubishi issue was ten times oversubscribed. More bond sales will follow, especially since several trillion yen-worth of old convertibles are due to mature by the end of next year, creating fresh financing needs.

Convertibles appeal to companies that want to raise money by issuing equity, but are wary of tapping stockmarkets directly. They hope that higher conversion premiums will ease the concern of existing shareholders that a supply of new shares in future will dilute existing holdings. The concern used to be brushed aside when share prices went only upwards.

Issuing convertibles also gives companies the chance to reduce interest payments on debt, which for many is increasing as companies' creditworthiness deteriorates. Convertibles also bring greater financial flexibility, by tapping a fresh set of investors, says Christopher Mothersill, co-head of capital markets at Morgan Stanley in Tokyo, and by keeping in reserve companies' ability to turn to traditional debt markets later on.

As for investors, although they miss a bigger portion of the rewards when the price of the underlying shares rises, they like the downside protection that convertibles offer, says David Hatt, head of equity capital markets at Nikko Salomon Smith Barney. The biggest drivers of demand for convertibles are international hedge funds, especially those specialising in convertible-bond arbitrage. The more volatile the underlying stock, the more valuable is the option to convert into equity.

Yet this option is often underpriced. Arbitrage funds exploit such discrepancies by buying convertibles while borrowing and then selling a portion of the underlying stock. As insurance, they buy credit-default swaps in case the issuer defaults on its debt. Now that available returns are shrinking elsewhere, convertible-arbitrage funds are piling into Japan, where discrepancies are relatively big and profits easier to come by.

Still, it is not that easy to create convertibles that are well received by shareholders, warns Mr Mothersill. Investors can be scared away by the threat of extra supply—which, in Fujitsu's case, could dilute existing share capital by as much as 10%. Share prices also suffer as convertible-arbitrage funds automatically sell the underlying stock. Often, mere rumours that a company might be about to issue convertible bonds are enough to trigger a sell-off.

Some investment banks, such as UBS Warburg, have tried to fight this by tightly controlling information about issues. Ichiro Ouchi, a director, says the bank strictly limits the portion that goes to convertible-arbitrage funds, selling instead to conservative investors, such as Swiss private banks, who are less likely to sell short the underlying shares. Others claim that many bonds are just sold on, at a premium, to the hedge funds.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

GE Capital

One into four

Aug 1st 2002 | NEW YORK
From The Economist print edition

General Electric brings “clarity” to its massive financial-services arm

BACK in the distant past—let's see, about a year or so ago—every move made by GE under its then chief executive, Jack Welch, was accepted as brilliant. How times have changed. A reorganisation announced on July 26th that splits GE Capital, the company's financial-services arm, into four separate bits has raised questions about the strategy of what has been an extraordinarily successful business, accounting for over two-fifths of the giant's total earnings.

The company insists these moves are not hugely significant. GE Capital produces $58 billion a year in revenues and $6 billion in pre-tax profits, through a range of financial services that stretch from credit cards to insurance to aircraft leasing. GE's new chief executive, Jeffrey Immelt, says he wants to have the same “direct line of sight” into the company's financial operations as he has into appliances, jet engines and the other traditional industrial operations. To get that, he needs to have more people reporting more directly and more clearly to him. In the process, things will be clearer for investors. End of story.

Perhaps. But all these improvements could have been made without such a big reorganisation. And did GE Capital's bosses really not report to the chief executive? After all, Mr Welch personally reviewed any number of big transactions arranged by GE Capital. What is more, similar amounts of disclosure on GE Capital were already available to investors, though it may now become marginally easier to compare broad swathes of its operations with those of its competitors.

One objection from outsiders remains, however: that it is hard if not impossible to know how much capital is applied to each of GE Capital's two-dozen operating divisions—and thus to know how risky, and profitable, each division really is. In rebuttal, GE points to reams of financial statements routinely filed with the Securities and Exchange Commission. Yet reconciling multiple layers of statements takes, at best, a superhuman effort; at worst, because of the complexity of overlapping information, it may not be possible at all.

The clearest outcome of the realignment is that the head of GE Capital, Denis Nayden, is now without a real job—a sign, perhaps, that Mr Immelt is attempting to make his own mark. There will also be consolidation of the back offices, which are a mess after 400 acquisitions in the past decade alone.

The greatest speculation is whether this strategy, based heavily on acquisitions, will change. A large part of GE Capital's success has come from the low financing costs that flow from having a triple-A credit rating. The company's bonds have, however, recently traded at prices that imply that a lower rating is warranted. Nominally, GE Capital has debt equivalent to eight times equity, a comfortable enough level of leverage, says Moody's, a rating agency. But if the goodwill from acquisitions is subtracted from equity, and off-balance-sheet financing (modest till now because of GE's top-notch rating) is added back in, then GE Capital's leverage rises to a heady 17-to-1. Investors, then, might conclude that GE will have to throttle back on acquisitions, adversely affecting both growth and return on equity.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Japan's economy

As you were

Aug 1st 2002 | TOKYO
From The Economist print edition

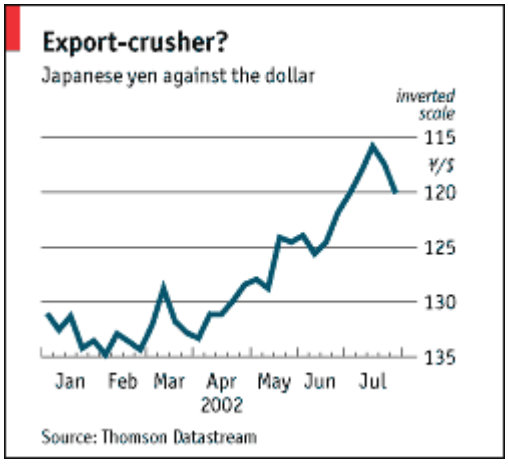
How much trouble is the yen's bounce causing Japan?

Get article background

IT WAS a great quarter, but it will be hard to repeat. On July 29th the government announced that Japan's industrial production had shot up at an annual rate of 15.1% during the second quarter. Those same statistics, however, also contained more sobering news. The quarterly gains were driven by a sharp increase in April and May. In June, four consecutive monthly increases came to a halt, with production falling by 0.7%. Taken with the yen's recent strength, the implication is that Japan's fragile recovery may be at risk.

Although the prospect of a mild recovery is still good, the economy relies heavily on a minority of companies with strong exports and overseas earnings. Confidence in any rebound is, therefore, hostage to the yen. The outlook improved earlier this year, after last year's 15% drop in the yen began to give car and electronics firms a boost, without triggering a financial meltdown when the fiscal year ended in March. Only a few months ago, Japan's officials were actually trying to talk the yen higher, as nervous Asian neighbours such as China and South Korea complained loudly about its slide.

Even after strengthening a bit, the yen averaged 127 to the dollar in the quarter that just ended (see chart). Largely as a result, a string of exporters and global firms have been able to report impressive quarterly figures over the past week or so, from car makers such as Honda, which boasted a 13% rise in operating profits, to big electronics firms such as Fujitsu, which managed to bleed less red ink than last year.



By last week, however, the yen had risen to 116 to the dollar, and officials were saying that they could not countenance anything stronger. Even though the currency is still not quite back where the government would like it, equity investors pounced this week when the yen eased back to around 120, pushing up shares of the car companies, along with those of other big exporters such as Sony and Canon.

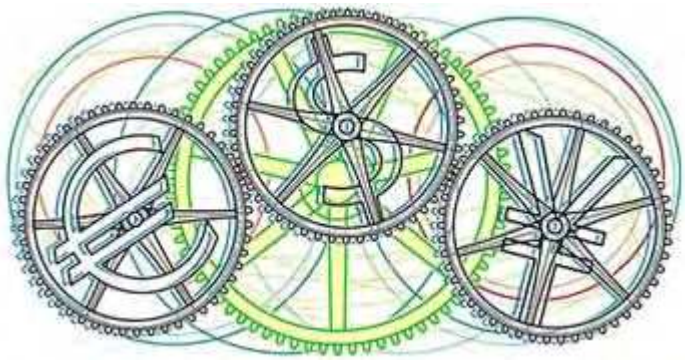
Although the yen is stronger than it was earlier this year, Japan's economy can probably just about cope, so long as the currency does not rise further. Worries hang over the domestic economy: nominal wages fell by 3.2% year-on-year in June. Yet confidence among small firms rebounded sharply in July. Two big risks remain. If turmoil in America's financial markets affects final demand, that would hit Japan harder than many other countries. And if a second American recession comes along with a bigger drop in the dollar, then watch out.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Managing the world economy

Aug 1st 2002
From The Economist print edition



We asked the IMF's Kenneth Rogoff to survey the challenges facing the global financial system at the start of the 21st century

SOMETIMES I spend my nights re-reading how Englishman John Maynard Keynes and American Harry Dexter White calmly traded ideas for reshaping the international financial system, even as the second world war exploded around them. That puts today's challenges into perspective—useful for those of us who sit, as I now do, at the International Monetary Fund, attempting to implement Keynes's and White's vision as it has evolved over the past 60-some years. Taking a pause to look ahead, here are six issues that seem particularly salient over the coming decades.

1. Current-account imbalances

We at the IMF have not been a cheerleader for burgeoning current-account imbalances, especially when they start to look unsustainable. Are we wrong to worry so much about this? Rapid current-account reversals are often accompanied by sharp and potentially disruptive adjustments in exchange rates or, worse, patterns of growth. But at the same time, if we begin to think ahead, it becomes obvious that the real challenge is not to reduce current-account imbalances but to find ways to sustain bigger ones, albeit properly directed.

Isolationists in industrialised countries should stop and look at their populations' advancing age structure. As the dependency ratio explodes later this century, who is going to provide goods and services for all the retirees? There are many elements to a solution, not least allowing expanded immigration from the developing world, with its much younger population. Regardless, one desirable element has to be for the industrialised countries to save abroad by running large current-account surpluses vis-à-vis the developing world. These cumulated surpluses, while facilitating much-needed investment in poorer countries right now, could later be drawn down as the baby-boomers stop working.

As discussed in our *World Economic Outlook* of May 2001, the resulting pattern of current-account balances could see industrialised countries accumulating overseas wealth amounting to 50% of their GDP by 2030. Then the process would reverse, with the industrialised countries drawing down their wealth by running sustained current-account deficits of 3-4% of GDP. Right now, the system cannot easily tolerate such giant debt accumulation. We have to make it work better. Expanding trade would help support deeper capital-market integration. Better procedures to govern international lending contracts are also essential.

2. Government debt

Unfortunately, though globalisation raises the benefits of re-channelling global savings, it also sets constraints on governments' capacity to raise the revenues needed to manage exceptionally large debt-to-GDP ratios. As factors of production become more mobile, they become more difficult to tax.

Companies can ever more readily move production to countries where tax rates are lower. As global investment options expand, taxing wealth-holders has become harder too. Even labour cannot be relied on to remain at home. Indeed, countries that fail to achieve offsetting efficiencies (for example, by keeping after-tax rates of return competitive through above-average productivity growth) may find it increasingly difficult to borrow as the 21st century rolls on. Otherwise, if a government allows its debts to rise too far, there will be an exodus of capital and labour that strains the ability to repay of the investors and workers who remain. Exacerbating this will be the diminished ability of governments to borrow, even at home, without indexing debt to major currencies. Indexation also pushes down levels of sustainable debt, as it increases vulnerability to exchange-rate adjustments that might otherwise be desirable.

Fortunately, in addition to productivity gains, governments still have many ways to make their commitment to future debt repayments more credible. Improving the efficiency of national tax systems is one. Until we have better answers, though, some governments may be well-advised to be more prudent, at the very least running surpluses during times of economic booms, so as to have some borrowing capacity left when it is most needed. Certainly this should be one of the lessons from Argentina, whose government ran deficits during the boom years of the 1990s.

3. Exchange rates

Perhaps economic historians will look back on today's patchwork global exchange-rate arrangements as a latter-day Tower of Babel. But what other system is there? With freely flowing capital, a fixed exchange rate has the life expectancy of a Hollywood marriage. And, on the whole, the historical experience of countries that try to sustain rigidly fixed rates indefinitely via capital controls is not a pretty one. Unless monetary and fiscal policy are slavishly consistent with the requirements of fixity, a parallel market soon flourishes, with, in effect, a floating rate. Typically, the parallel premium grows, the capital controls break down, and the official rate itself has to move.

During post-war history, a great many so-called fixed exchange-rate regimes have in reality been “back-door” floats via dual and parallel markets. Then again, many countries nominally float but, for various reasons, often due to some form of liability dollarisation, intervene so as to keep the exchange rate within relatively narrow margins. (Guillermo Calvo and Carmen Reinhart call this phenomenon “fear of floating”.)

Movements in those few exchange rates that do float (for instance, the dollar-yen and the euro-dollar) are frustratingly difficult to explain, much less predict; policymakers must be conscious of this fact. In my first job as a young economist at the Federal Reserve Board, during the Volcker era of the 1980s, I was asked to investigate whether various new-fangled exchange-rate models could help predict rates. My colleague, Richard Meese, and I came back with the then-radical, but now-conventional, finding that no structural model can reliably explain major-currency exchange-rate movements after the fact, much less predict them.

We continued our efforts regardless. As the story goes, a general once told his weather-forecasting team, “I appreciate being informed that your forecasts are no better than random, but please keep sending them on, as the army needs your predictions for planning purposes.”

Since 1945, the number of currencies in the world has increased roughly twofold, almost proportionately to the number of countries. I believe that at some point later this century, there will be consolidation, ending perhaps in two or three core currencies, with a scattered periphery of floaters. Getting there, and managing macroeconomic policy with less exchange-rate flexibility, is one of the major political and economic challenges of the next era of globalisation.

4. Capital controls

Admittedly, in its routine surveillance missions, prior to the Asian crisis, the IMF may have sometimes

tilted too far towards benign neglect as countries prematurely liberalised markets for short-term capital movements, before the internal regulatory structure was in place to handle them. Now, the IMF's advice is more nuanced. Let's understand, however, that this is a tough balance to strike, and for many reasons.

First, as economies develop more sophisticated financial sectors, capital controls become more and more difficult to enforce. Second, in countries with serious governance problems, capital controls can be a particularly pernicious source of corruption. Third, to some degree, capital-account and trade liberalisation go hand in hand. With unfettered trade, under- and over-invoicing can be used to circumvent capital controls. If capital controls are too heavy, the need to comply with complex regulations hampers trade. It is particularly important for developing countries to remain open to direct foreign investment, which is the least volatile form of capital flows and, in recent years, by far the most important quantitatively, amounting to $170 billion in 2001. That said, the role of limited and temporary capital controls, especially for economies at intermediate levels of financial development, needs further study.

5. Africa

Macroeconomic stability, including some measure of price stability, is surely an essential ingredient of economic growth. Consider then the profound problems facing macroeconomic policymakers in Africa. Put aside civil conflict, which has happily diminished in recent years, and drought, which has not. Many African countries rely heavily on exports of a small number of primary commodities (for example, cotton, coffee, cocoa, soyabeans, metals and, in some cases, oil). All are subject to extraordinary price volatility in world markets. Add to that the extreme unpredictability of international aid flows, and one can see that macroeconomic stabilisation would be difficult to achieve under any circumstances.

It is harder still in countries where institutional development is incomplete. Policymakers face a natural temptation to try to shield the economy from volatility with extensive price and exchange controls. Unfortunately, completely blocking price signals impedes adjustment to what are often long-lived shocks, not to mention the inefficiency and corruption that controls typically spawn. Many parts of Africa have made great progress in lowering inflation, liberalising markets, and resuming growth. The IMF has helped. Still, the challenges ahead are formidable, and require further rethinking of standard macroeconomic prescriptions.

6. Moral hazard and IMF lending

It would be hard to overstate the influence of the popular perception that IMF crisis loans are thinly disguised bail-outs, with the tab paid mainly by ordinary taxpayers in the industrialised world. The presumed need to limit such bail-outs, and their adverse long-term incentive effects, is a central element of virtually every important plan out there to improve the way the IMF does business.

The challenge posed by the bail-out view is not simply lack of transparency—that IMF loans are really outright transfers and should be called such. No, the deeper and more troubling implication is the “IMF moral hazard” theory. Simply put, if lenders are confident they will ultimately be bailed out by heavily subsidised IMF loans, they will extend too much credit to emerging-market debtors at rates that do not reflect the true underlying risk. The result? Bigger and more frequent crises than if the IMF did not exist. Giving the IMF more resources, it is argued, exacerbates the crises it was designed to alleviate.

Yes, it is an elegant theory. (I am well disposed to it, having devoted considerable energy to the idea in the 1980s.) But is the premise—that IMF loans are subsidised bail-outs—really true? IMF loans have almost invariably been repaid with interest. To maintain that rich-country taxpayers are footing a big part of the bill, one has to believe that the IMF protects its books by continually relending principal and interest—a giant Ponzi scheme that must someday unravel. Researchers have explored this idea also, however. The results suggest very limited “bail-out moral hazard” in some episodes, but this does not appear to have occurred regularly or on a massive scale.

Please understand: it is true that IMF programmes have sometimes ended up rescuing both lenders and debtors, though not always. (Investors got burned in Russia in 1998.) But if there is little subsidy element involved, perhaps such “bail-outs” should just be interpreted as the IMF doing its job: making the international financial system work better.

Has the IMF been lucky or good? Perhaps some of both. The worldwide economic boom of the 1990s surely helped relieve stress on the IMF's books. It is also likely, however, that the much-maligned IMF-supported programmes in Mexico, Asia and elsewhere in the 1990s were not nearly so incompetently designed as some have asserted. Certainly, to keep bail-out concerns on the back burner, the IMF needs to ensure that its programmes continue to be well designed and based on sound fundamentals. Politics in both donor and borrower countries will always come into play, but it cannot be allowed casually to override clear-headed judgments about sustainability.

Kenneth Rogoff is Economic Counsellor and Director of the Research Department of the International Monetary Fund. He was previously a professor of economics at Harvard University and before that at Princeton.

Many of Mr Rogoff's recent papers can be read on his website.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The origins of violence

Nurturing nature

Aug 1st 2002
From The Economist print edition

Getty

The first study has just been published showing how a particular gene and a particular environment interact to produce violent individuals

FEW debates in human biology have been as acrimonious as the one between genetic determinists and social determinists of behaviour. For decades each side, convinced of its own correctness, and the policy implications of that correctness, refused to see any merit in the arguments of the other. But the past few years have seen a reconciliation of sorts, and the emergence of a grudging understanding that although environment—particularly childhood environment—undoubtedly shapes an individual's behaviour, how it does so may depend on the individual's genetic make-up.

Until now, though, that reconciliation has been backed only by hazy data. This week sees the publication of a clear-cut case—a paper showing that the degree of expression of a gene implicated in the development of aggression does indeed interact with a person's early circumstances to shape a violent or a pacific personality.

Terrie Moffitt, of the Institute of Psychiatry at King's College, London, and her colleagues, picked *MAOA*, the gene for a protein called monoamine oxidase-A, for their study, which has just been published in *Science*. Monoamine oxidase-A is an enzyme that breaks down members of an important group of neurotransmitters, the molecules that carry signals between nerve cells. These neurotransmitters include dopamine, serotonin and norepinephrine, all of which help to regulate a person's mood.

There is abundant evidence that a reduced level of monoamine oxidase-A (and therefore an elevated level of these neurotransmitters) results in violent behaviour. There is also evidence that chronically low levels early in life result in an individual who is more than averagely predisposed to react violently to any given situation in adulthood, regardless of monoamine-oxidase levels at the time.

Much of this work has been done on mice, but there is also a famous human case. Many of the men in one well-studied Dutch family lack the *MAOA* gene entirely. These men are notoriously violent individuals.

An absence of the *MAOA* gene is, fortunately, rare. But there is considerable variation in the “promoter” DNA near the gene itself. This promoter region is responsible for switching the gene on and off, and thus

for controlling the amount of monoamine oxidase-A manufactured. Dr Moffitt looked at variations in this promoter region in a group of men who are the subject of a long-term research project called the Dunedin Multidisciplinary Health and Development Study, which is being carried out in New Zealand. The men involved, a group more than 500 strong, have been monitored from birth, and are now in their late 20s. Their adult personalities are thus fully formed, and their tendency to violence has been measured in several different ways.

Dr Moffitt and her colleagues grouped the various versions of the promoter region into those that result in low levels of monoamine oxidase-A, and those that result in high levels of the enzyme. They also divided their subjects into those who had been maltreated as children and those who had not.

The results were clear. Only 12% of the group had both abused childhoods and low-activity promoter regions, yet this group accounted for 44% of those who had criminal convictions for violence. Fully 85% of the 12% showed some form of routine anti-social behaviour. The next most anti-social combination (high-activity promoters and an abused childhood) resulted in only about 45% of men showing routine anti-social behaviour, while only a quarter of those who had had tranquil childhoods were anti-social in adulthood, regardless of their promoter type.

In the case of *MAOA*—at least in men—both gene and environment have discernible effects. However, as the paper points out, there are two ways of looking at the phenomenon. Low-activity promoter regions could be regarded as “genes for violence” that need a violent context to be expressed. That might make sense in evolutionary terms, since a child brought up in violent surroundings will probably live in a violent world as an adult and might therefore need to employ violence to thrive. On the other hand, high-activity promoter regions could be regarded as genes for the suppression of violence. Take your pick.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Vinland map

To be or not to be

Aug 1st 2002
From The Economist print edition

Ain't science a wonderful thing

THIS week saw two big announcements about the Vinland map, a piece of parchment which purportedly proves that Scandinavian explorers arrived in America centuries before Columbus. One of these announcements showed that the map is genuine. The other showed it is not.

AP

Here be dragons

The Vinland map was revealed to the world in 1965 by researchers at Yale University, where it still resides. It depicts Europe, Asia and Africa—and also, across the Atlantic ocean, a place called Vinland. This is supposed to correspond to land explored early in the 11th century by a Viking called Leif Eriksson, and so named because of the wild vines growing there. Unfortunately, the Vinland map had no recorded history before 1958, and so became the subject of instant controversy.

The proof that the map is genuine came from Jacqueline Olin, of the Smithsonian Centre for Materials Research and Education, in Suitland, Maryland, and her colleagues. They used radiocarbon dating to find out how old the map's parchment is. The answer, published in the August edition of *Radiocarbon*, is that the skin was stripped from its unfortunate host in 1434, give or take 11 years. That is half a century before Columbus sailed the ocean blue.

The proof that the map is a forgery comes from Robin Clark and Katherine Brown of University College, London, and is published in the latest edition of *Analytical Chemistry*. The researchers used a technique called Raman spectroscopy to trace the distribution over the parchment of a substance called anatase. This material, a form of titanium dioxide, is not known to have been manufactured before the 1920s. It had been detected in the map's ink in the past by spot-sampling. That cast serious doubt on the map's authenticity. Raman spectroscopy, which analyses chemical mixtures from the way they scatter light, allowed the whole of the map's surface to be examined. Dr Clark and Ms Brown found that all the ink contained anatase.

One possible reconciliation is, of course, that the map is a modern forgery on a piece of ancient parchment. Another is that the anatase formed naturally by the transmogrification of another form of titanium dioxide over the centuries—though that seems unlikely. A third is that anatase is not, actually, a modern invention, and that medieval map makers knew about it.

Vinland aside, the argument about which bunch of Europeans arrived in America first is an odd one. First, there is now archaeological evidence of at least one Norse settlement in Newfoundland. A Norse coin has

also been found in Maine, although the context suggests it got there through trade rather than by being dropped by a careless Viking.

More to the point, it is a matter of historical record that Greenland was discovered by Norsemen in the ninth century and, indeed, colonised in the tenth. A glance at any map shows that Greenland is an offshore island of North America. True, it is not part of the mainland. But Columbus himself did not set foot on the American mainland until his fourth voyage, in 1502. That was a decade after his landing on the Bahamian island of San Salvador on October 12th 1492, the date normally thought of as his “discovery” of the new world. Regardless of the authenticity of the Vinland map, there is no doubt who made it first. And it wasn't the Spanish-backed Genoese guy.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Predictive medicine

And now here is the health forecast

Aug 1st 2002
From The Economist print edition

Understanding the link between illness and temperature should help hospitals

THAT changes in the weather have an impact on health has been known since the time of Hippocrates of Kos, the ancient Greek “father” of medicine. Ever since (and no doubt before) mothers have encouraged children, and children their elderly parents, to “wrap up warm” in winter. But that knowledge has never been used to forecast demand for health services on a day-by-day basis.

That is, until now. A collaboration between Britain's Meteorological Office and its Department of Health should result in health forecasts being issued to the country's hospitals, to help them to anticipate demand. These forecasts will predict the incidence of certain medical conditions up to two weeks in advance.

The inspiration for the project was work carried out five years ago by William Keatinge of Queen Mary and Westfield College, in London. Dr Keatinge compared the health and weather records of a number of places in Europe and found a relationship between changes in temperature and the incidence of coronary thrombosis and strokes. No surprise there, perhaps. What was surprising was the detail. For coronary thrombosis, cases peaked two days after a drop in temperature. For strokes, the delay was five days. (Deaths from respiratory infections also showed a lag, of 12 days, from a temperature drop, but that is not surprising since it takes time for an infection to develop.)

Under the guidance of William Bird, the Met Office's medical adviser, a Health Forecast Unit has been created within the organisation to turn Dr Keatinge's insight into a computer model that combines meteorological, demographic and medical data to predict demand for medical services. A four-week trial carried out in a hospital near the Met Office's headquarters resulted in operating savings of £400,000. That could translate into savings over the whole country of tens of millions of pounds a year after the system comes into operation in April 2003. Of course, the best idea of all might be to listen to your mother (or your children), wear an extra scarf, and prove the model wrong.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Vienna zoo

Many happy returns

Aug 1st 2002 | VIENNA
From The Economist print edition

A birthday for the world's oldest zoo

Welcome to Vienna

VIENNESE zoos were around long before Emperor Franz Stephan decided to organise one in the gardens of the Schönbrunn palace in 1752. But only his has lasted. It is now the oldest in the world, and it marked its 250th birthday on July 31st by opening a high-tech rainforest exhibit—a far cry from the dreary cages that the first inhabitants endured.

Franz Stephan recoiled from what every schoolchild knows: a good zoo needs plenty of scary carnivores. In the early days he ruled them out because of their smell. Instead, he placed exotic birds and deer in cages that encircled an elegant pavilion, still standing, where he could take breakfast on warm mornings (and, some say, perform alchemical experiments by night). Visitors were encouraged. Mozart strolled past, as did later and lesser generations of Viennese.

Animals arrived only gradually. They were bought from travelling menageries or else landed by Emperor Josef II's expeditions to the Americas and Africa in the 1780s. The imperial gardener, Franz Boos, tried and failed to bring back a giraffe from Africa. In 1801, perhaps to make up for that disappointment, the zoo had a deceased keeper stuffed by a Venetian taxidermist and displayed along with the animals.

The first giraffe arrived to great fanfare in 1828 but lived for only ten months. A post-mortem speculated that its legs had never recovered from fractures sustained when it was strapped to the backs of camels carrying it from Sudan to Egypt. Polar bears from an Austro-Hungarian expedition in 1873 (which also discovered Franz Josef Land, an Arctic archipelago named after the emperor of the day) fared better.

By then, zoos were coming of age. Budapest got one in 1866, New York in 1873, Tokyo in 1882. With the European conquest of Africa (in which Austria-Hungary did not participate) the Schönbrunn grew rapidly, from 800 animals in 1879 to 3,400 in 1918. New factories swelled Vienna's population in parallel with this growth, and the animals found themselves prey to merciless weekend crowds. Some were poked to death. Others were poisoned. Still others died of malnutrition, disease, disorientation or even heartbreak.

There were happier moments. In 1906, an elephant was born in captivity in the Schönbrunn—a first for any zoo. In 1924, the zoo appointed its first scientist as director. Otto Antonius greatly improved the living conditions of the animals but proved less generous to humans. A committed Nazi, he took his own life as the allies approached the zoo's gates in 1945. There was not much left to liberate. Allied bombing had already splattered the rhinos and hippos across their pens. The starving giraffes, which miraculously survived the falling bombs, were nursed back to health by Red Army officers.

Today's Schönbrunn sees its mission as preservation and education. Its animals are gene donors for fellows in the wild. Researchers at the zoo are helping to reintroduce the Przewalski wild horse back into Mongolia, the oryx to Jordan, and the ibis to Morocco. Like most good zoos, it is downsizing. It wants to give a better life to fewer animals. Numbers have fallen from 4,000 in 1980 to 2,500 today. Innovative enclosures such as a swish new elephant house give both researchers and the public a better chance of learning about the animals. Not least Abu, who last year became the world's first test-tube elephant.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Assessing hurricane risk

Sounds like trouble

Aug 1st 2002
From The Economist print edition

Underwater microphones should be able to measure the risk from hurricanes

IN AUGUST, the tropical cyclone season in the Atlantic and Pacific oceans will reach its peak, putting coastal populations on alert. A hurricane is fuelled by the warmth of tropical waters and loses strength when it crosses land, but not before the wind batters buildings and the sea swamps the coastline. Although there may be little more than a gentle breeze on the outskirts of a storm, wind speeds near the centre can exceed 100kph.

A tropical storm can extend over thousands of kilometres, and the giant spirals of clouds can easily be tracked by satellite. But it is not so easy to measure the wind speed. If a hurricane threatens America, aircraft are sent into the storm to collect the relevant data. But many of the countries hit hardest by hurricanes, such as India and Bangladesh, are among the world's poorest. Aerial reconnaissance missions are too costly to be part of their storm surveillance, and estimates made from satellite photographs are unreliable.

Nicholas Makris, an acoustical oceanographer at the Massachusetts Institute of Technology, may have an answer. He proposes using hydrophones (underwater microphones) to detect the deep-water rumble made by a hurricane. The hydrophones would form a permanent and cost-effective monitoring system, listening to the sea. The noise of a storm—both the power and the pitch of the sound generated—could give accurate measurements of wind speed.

The waves set up by winds blowing across the sea's surface crash and froth, sending billions of bubbles into the water. Each bubble oscillates, creating a pressure wave in the water that is detected by the hydrophones. Calculations suggest that the amount of power absorbed into the ocean from a storm and subsequently detectable as noise is proportional to the cube of the wind speed. Observations have shown that these calculations are accurate for gentle winds, but there are no data for hurricane-force storms.

Or at least no accessible data. However, the American navy installed a network of hydrophones during the cold war to detect submarine activity and it is likely that they have recorded the passage of tropical cyclones. The records are classified, but Dr Makris is negotiating with the government to get them released.

Meanwhile, an oil company has given permission for hydrophones to be put on rigs in hurricane-prone areas of the sea. The first will start listening to storms in the Gulf of Mexico before the end of the year. If the detected noise translates into a wind speed that agrees with measurements made on flights through the storm, this technology may eventually lead to networks of hydrophones in such hurricane hot-spots as the Bay of Bengal.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Screenwriting

Small-screen sparkle

Aug 1st 2002
From The Economist print edition

AP

If you really want to be creative, write for television and not for the movies

SUMMER in Hollywood is blockbuster season, a time for the studios to release films unburdened by artistic pretension. This year they have obliged, with a steady supply of big-screen explosions, malfunctioning submarines and scenes where men cradle oversized guns (“The Sum of All Fears”, “The Bourne Identity”, “K-19 The Widowmaker”). Yet even by Hollywood's standards, this summer has over-supplied sequels (“Men in Black 2”, “Austin Powers 3”, “Spy Kids 2”) and adaptations (“Spider-Man”, “Scooby-Doo”), and under-supplied originality. If nothing else, the summer crop confirms that the creation of franchises and brands has triumphed over dramatic creativity in Hollywood film-writing. These days, however, some of the most challenging American drama is being written for television.

In recent years, a number of American screenwriters have used television as a medium in which to push at the edges of the dramatic genre. “The Sopranos”, “Sex and the City”, “The West Wing”, “24”, “Six Feet Under”: each, in its own way, takes on dramatic conventions and twists them one way or another.

In “24”, for instance, Joel Surnow and Robert Cochran, play with time. Each of the 24 episodes of this Twentieth Century Fox drama, set in a counter-terrorist unit in Los Angeles, takes place during one hour on the same day. Week by week, the hour ticks by both in real time and on the screen. With this novel device, along with the use of a split screen to display simultaneous story developments, the writers thread together different strands of an attempt by CIA agents to uncover a plot to assassinate a presidential candidate, while sustaining the sense of a race against the clock.

Other television writers have confronted taboo subjects which Hollywood tends to sentimentalise. Alan Ball, who won an Oscar for his film “American Beauty”, for instance, thrusts death in the viewer's face in “Six Feet Under”, set in a family-run funeral parlour. He does this literally: scenes shot in the mortuary unapologetically show bits of corpses being sewn back on, stuffed, pickled or waxed. And symbolically: the dysfunctional nature of the family is revealed as the business of death forces the family members to confront the shortcomings in their lives. This dark, uncomfortable material is at once repulsive and funny. As David Fisher, the repressed second son who sought to emulate his father but failed to win his approval, snaps: “Other kids my age were going to frat parties, I was draining corpses and refashioning severed ears out of wax.”

“The exploration of character can be done far better over 13 episodes in TV than over two hours in a movie”

What is it about television that throws up these unexpected dramatic possibilities? Part of the answer is that the medium has traditionally given screenwriters more creative control. “The writer is the power in TV; in features, a star can say they don't like it and you're stuck,” says Michael Patrick King, creator of “Sex and the City”, a drama about four single women in New York. Writers for successful TV series, such as John Wells and Aaron Sorkin (“ER”, “The West Wing”), often create, produce and write their series—and can withstand studio pressures to play safe.

Another explanation is the influence of Home Box Office (HBO), a subscription cable channel, which prides itself on commissioning the sorts of original drama that would find it hard to get the go-ahead from either the American TV networks or the Hollywood studios. “Sex and the City”, “The Sopranos” and “Six Feet Under” are all HBO original dramas.

A third reason is the episodic nature of television drama. “TV has stolen from film on drama,” says one Hollywood film-studio executive. “The exploration of character can be done far better over 13 episodes in TV than over two hours in a movie.” The big screen may be better for exploding cars or invading aliens, but a series on the small screen can support a more complex narrative structure akin to a novel.

In “The Sopranos”, for instance, David Chase makes deft use of story arcs and sub-plots interwoven across episodes to explore his subject: a suburban American family whose patriarch is a typical middle-aged man in therapy—and an unrepentant Mafia boss. In a well-crafted drama that thrives on its moral ambiguity, Mr Chase uses the tension between the Mafia boss's blood family and his mob family, between the domesticity of suburbia and the raw world of gangster violence, to examine the nature of deceit, honesty and loyalty.

The more television springs these surprises on Hollywood, the more the medium has gained in stature. “For actors and writers it's become prestigious to work in TV in a way it didn't used to be,” says Martin Kaplan, at the University of Southern California's Annenberg School of Communication. But as studios face up to shrinking budgets, will the industry be able to resist the pressure to return to cheaper, safer stuff? While HBO has just ordered a third series of “Six Feet Under”, other signs do not look too promising. The most talked-about show for the autumn TV season is “Kingpin”, about a family that runs a drugs cartel across the Mexican border. It has been commissioned for only six episodes—and scheduled only as a replacement for cancellations.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The superpowers in Africa

Killing fields

Aug 1st 2002
From The Economist print edition

THE cold war scarred Africa; nowhere more so than Angola. The civil war lasted for four decades, and left the country a huddle of refugees, dependent on food aid because their fields are sown with mines and haunted by bandits. Yet it was not, as Piero Gleijeses's new book shows, a straightforward tussle between the superpowers. To begin with, the Soviets were hardly involved, although the Americans thought they were. The real players were Cuba and South Africa. As Portugal, the colonial power, withdrew in a hurry in the mid-1970s, it became clear that the Popular Movement for the Liberation of Angola (MPLA), a revolutionary Marxist group, was going to win power. The South African army invaded to stop this happening, and came within a few miles of taking the capital, but was repulsed at the last moment by a few planeloads of Cubans.

It might seem odd that so poor a nation as Cuba could project power so far. The Americans assumed that Fidel Castro was acting on Moscow's orders. In fact, as Mr Gleijeses's trawl through Cuba's formerly secret archives shows, he acted on his own initiative. Had the Americans paid attention to Cuban attempts to stir up revolution in other African countries, they might not have been so surprised.

Buried in Mr Gleijeses's admirable but ponderous text is a racy tale of revolutionary romance. We read of the Cuban doctors who volunteered to go to Algeria, were told that it would be hot, arrived without coats and found it "freezing". In the forests of eastern Congo, Che Guevara spent months trying politely to rouse the slothful Simba guerrillas into action, but succeeded only in contracting malaria. Cuban soldiers in Angola won a reputation for not slaughtering captives, which prompted many foes to surrender to them rather than to their African allies.

Reuters

Eyes across the ocean

Cuba's interventions in Africa ultimately did little good—most of the regimes it propped up turned out to be cruel and rapacious—but this has not dulled the affection in which Mr Castro is held by many Africans. He received a standing ovation when he visited South Africa's post-apartheid parliament, and the foreign minister refuses to condemn the fact that Cubans cannot vote. America's cold-war antics, meanwhile, created a legacy of distrust in Africa. This does not matter much to Americans. But it still prompts many Africans to look to countries like Cuba for inspiration on how to run their own affairs.

Mr Gleijeses stops his account abruptly in 1976, which is a shame. It would be interesting to know what the Cubans felt about their later involvement in Angola. After defeating the South Africans, Castro sent thousands more troops to Angola to shore up the MPLA regime, but they were never able to crush the National Union for the Total Independence of Angola (UNITA), a rebel army which enjoyed American and South African support because Mr Savimbi claimed to be anti-communist. Even after the cold war ended and outsiders stopped backing the rebels, they fought on, with occasional interruptions, until April this year. Watching families divided by war being reunited last week for the first time in decades was a salutary reminder of how long, and ultimately how futile, those battles had been.

Conflicting Missions: Havana, Washington, and Africa, 1959-1976
By Piero Gleijeses

University of North Carolina Press; 576 pages; $34.95

Buy it at
Amazon.com
Amazon.co.uk

Conflicting Missions: Havana, Washington, and Africa, 1959-1976.
By Piero Gleijeses.
University of North Carolina Press; 576 pages; $34.95

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Travels in Siberia

Unsheltering sky

Aug 1st 2002
From The Economist print edition

AMERICANS conquered their west cheerfully, mythologising as they went; Russians treated their big east with indifferent contempt. Siberia was a land of punishment, a freezerbox in which to dump officials mad and bad. Yet Siberia transformed Muscovy as the west transformed America. It was a lust for fur, not gold, which drove 17th-century Russians across the river Ob to the Yenisey, the Lena, the Indiginka, and the distant, other-worldly Kolyma. The speed of this almighty portage was incredible: Russians reached the Pacific in 1639, 166 years before Lewis and Clark in America.

The Shaman's Coat: A Native History of Siberia
By Anna Reid

Weidenfeld & Nicolson; 226 pages; £20.
To be published in the United States by Walker in October; $24

Buy it at
Amazon.com
Amazon.co.uk

Anna Reid, Kiev correspondent of the *Daily Telegraph* and of this newspaper from 1993-95, sets out to write a history of some of the native Siberians whom the Russians pushed aside along the way. She begins among the Muslim Tartars and the Finnish-related Khant, whose word for a photograph is “pool of still water”. In Buddhist Buryatia she uncovers an oddly heroic tale about some British Congregationalists. Arriving in 1818, they converted just four Buryat in 23 years and compiled the first Tibetan-Mongolian dictionary.

She recounts the demise of the nominally independent Tuvan Republic which in 1929 had three cars, no roads, and a trove of fine horses. Everywhere she traces the scars of Stalinism on native peoples: the mass slaughter of lamas and shamans, collectivisation of reindeer herds, theft of sacred fishing grounds. Traditions are almost gone. In Sakhalin a Nivkh woman explains how her father hunted. “Whenever he caught a seal he cleaned its skull, filled it with berries and threw it back into the sea. Nobody does that now.”

Ms Reid is winningly honest. The centrally-planned settlements she passes are “total dumps”, the native peoples all too often deracinated and undone by drink and poverty. But she has little feel for the wilderness or obvious affection for the outdoor life which formed the native cultures. By the time she reaches Arctic Chukotka, whose fierce Inuit-related Chukchi were the only native people to force the Russians into retreat, she appears defeated, as many before, by Siberia's immensity.

The Shaman's Coat: A Native History of Siberia.
By Anna Reid.
Weidenfeld & Nicolson; 226 pages; £20.
To be published in the United States by Walker in October; $24

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Science

King Faraday

Aug 1st 2002
From The Economist print edition

THE son of a blacksmith, he became the leading scientist of his day, and is remembered as one of the greatest experimentalists in the history of science. But, as James Hamilton contends in an illuminating new biography, Michael Faraday's story is not just the tale of a young man's rise through the scientific ranks. Mr Hamilton, who takes a special interest in tracing the connections between the artistic and scientific communities of the Victorian era, considers Faraday's scientific achievements alongside his artistic leanings and strong religious beliefs. By examining all three forces, Mr Hamilton casts new light on the master's life and work.

Faraday: The Life
By James Hamilton

HarperCollins; 448 pages; £25

Buy it at
Amazon.co.uk

Born in 1791, Faraday started out as an apprentice book-binder, reading everything that passed across his desk. A volume on chemistry caught his imagination, and he began to attend scientific lectures, a popular pastime in early 19th-centuryLondon. The star of the lecture circuit at the time was Sir Humphry Davy, who plucked Faraday from obscurity to work as his laboratory assistant. Faraday's education continued at Davy's workbench, and on an extended tour of Europe, during which Faraday unwillingly stood in for Davy's valet. Working together, the two developed the Davy Lamp for miners.

But Faraday quickly emerged from under his mentor's shadow as a scientist in his own right, corresponding with other researchers as an equal, and conducting pioneering experiments with electricity. His discoveries laid the foundations for the electric motor and the electrical generator, and thus for electrification in general. Faraday and Davy soon became estranged, and no wonder. Davy had difficulty seeing Faraday as anything more than his valet, and even tried to block his admission to the Royal Society. Faraday eventually succeeded Davy as the British government's trusted adviser on scientific matters, the Royal Institution's star lecturer, and London's foremost populariser of science. In contrast to Davy, with his charisma and flair, Faraday was a gentle, soft-spoken man whose lectures always put science, rather than the scientist, at centre stage. He only wrote one book, “Chemical Manipulation”, but Faraday allowed Charles Dickens to publish rewritten versions of some of his Christmas lectures for children, a tradition that continues to this day at the Royal Institution. Faraday is thus arguably the godfather of the current vogue for the popularisation of science in print and on screen.

Drawing on Faraday's copious diaries and notebooks, Mr Hamilton vividly conjures up the excitement of the lecture theatre, the difficulties of travel in Napoleonic Europe, and the stinks and bangs of the laboratory. He draws intriguing connections between Faraday's aesthetic appreciation of “crispations”, or oscillations, while at the seaside, with his subsequent insights into the wave-like nature of electricity and magnetism. Mr Hamilton also examines how Faraday's simplistic religious views (he was a member of an obscure non-conformist sect called the Sandemanians) informed his personal demeanour, but never interfered with his creativity and inquisitiveness as a scientist. Faraday believed the book of nature was “written by the finger of God”, but kept his religious and scientific thoughts in separate compartments. This exemplary study adds new depth to our understanding of a brilliant and complex man.

Faraday: The Life.
By James Hamilton.
HarperCollins; 448 pages; £25

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Short stories

Nasty but nice

Aug 1st 2002
From The Economist print edition

FUNNY, isn't it, how the misfortune of others can cheer you up. Lucretius, perhaps, put it best, and Dryden translated it beautifully. “Tis pleasant, safely to behold from shore/The rowling ship, and hear the tempest roar./Not that another's pain is our delight;/But pains unfelt produce the pleasing sight.”

Richard Russo and Maile Meloy would know exactly what he meant. They have conjured up, in their wonderful new collections of short stories, all manner of pleasing sights borne of the pain of others.

Mr Russo is justly celebrated as the author of big, sprawling epics such as “Empire Falls”, which this year won the Pulitzer prize. “The Whore's Child” shows that he is perfectly capable of working on a smaller scale too. Almost all of these stories concern, in one way or another, failing or failed relationships. In the title story, an elderly nun comes to terms, through a creative-writing seminar, with her illegitimacy. In another, a husband confronts his dead wife's former lover.

Elsewhere Mr Russo captures the moment at which a marriage unravels, or shows a retired professor struggling to cope with his wife's depression. In one delightful tale, “The Mysteries of Linwood Hart”, he offers a boy's perspective on his parents' separation—a sort of small-town “What Maisie Knew”, with baseball and spaghetti dinners. “Even though he now regarded himself as an expert twirler,” he writes, “he still liked it that you couldn't predict, when you pulled on one strand, which strand on the opposite side of the plate would snake towards you through the giant tangle.”

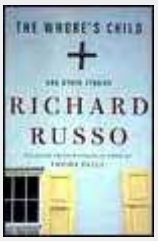
Ms Meloy is a relative newcomer. Her stories have been published in the *Paris Review* and the *New Yorker*, but “Half in Love” is her first collection. Like Mr Russo, she has claimed a particular territory—the rugged American west—and made it distinctly her own. Where Mr Russo likes to focus on the internal drama of personal breakdown, Ms Meloy is a connoisseur of noisier and more public crises—the collection opens with a story about an aggrieved worker who unwittingly kidnaps a member of the Samoan royal family. There is a lot of death, too, in a lot of different forms: by drowning, by car accident (three times, though in one case the victim is a terrier), even by paint pot.

Jarring, yes, but never simply miserable. Mr Russo and Ms Meloy write with flair and confidence, and a sure sense of dramatic timing (which usually means knowing exactly when to drop the bombshell). Their stories are shot through with acute observation, psychologically perceptive characterisation, and, often, with good humour. Between them, they strike just a few false notes. Mr Russo occasionally lapses into verbosity. Ms Meloy falters once or twice when operating outside her familiar territory, as when she misidentifies a girl from Sunderland, in the north-east of England, as a Geordie (thereby alienating any number of Mackem readers), and then proceeds to render the same girl's speech as if she were an Eliza Doolittle Cockney.

But these are little things. “The Whore's Child” and “Half in Love” are terrific collections, offering a peculiarly satisfying form of therapy—a brief, stylish and intelligent wallow in other people's misery.

The Whore's Child and Other Stories.
By Richard Russo.

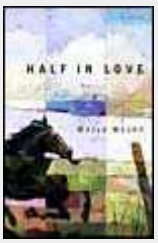
The Whore's Child and Other Stories
By Richard Russo



Knopf; 272 pages; $24.
Chatto & Windus; £10.99

Buy it at
Amazon.com
Amazon.co.uk

Half in Love: Stories
By Maile Meloy



Scribner; 176 pages; $23

Buy it at
Amazon.com
Amazon.co.uk

Knopf; 272 pages; $24.
Chatto & Windus; £10.99

Half in Love: Stories.
By Maile Meloy.
Scribner; 176 pages; $23

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Indian and Japanese bestsellers

What the world is reading

Aug 1st 2002
From The Economist print edition

Love and accountants and growing old

THE first thing to note about the bestselling “fiction” list, both in Japan and in India, is that, unlike in most western countries, it also includes memoirs, essays and historical biography. The second thing is how wonderfully revealing and diverse the lists are.

Japan's 65-and-over population accounted for 4.9% of the total in 1950 and 17.2% in 2000. It is expected to hit 28.9% by 2025. No wonder, then, that a meditation on ageing by Tokyo's populist governor, Shintaro Ishihara (who also has a long track-record as a bestselling novelist), should lead the fiction list. The top two non-fiction titles are by a 90-year-old physician, Shigeaki Hinohara, whose own longevity gives his books on health a degree of authority they might lack if he were a fresh-faced med-school graduate. Elsewhere, Japanese readers are preoccupied with fantasy, urban dystopia, cults, girl-groups, unruly teenagers and stressed accountants.

Unlike in Japan, Indian bestseller lists feature a number of international blockbusters, though there's also plenty of homegrown talent here too, of the calibre of Rohinton Mistry and Shashi Tharoor. But in a country with such a high birth rate, it is not surprising that readers also want the “What to Expect” books about child-rearing. Between them, this series and the four titles by India's newly sworn-in president, A.P.J. Abdul Kalam, account for more than half of the non-fiction list. In “Wings of Fire”, Mr Kalam details his pre-presidential life, while “Ignited Minds” and “India 2020” elaborate his sense of his country's future on the world stage. Required reading for the unconverted voter.

Bestsellers

	JAPANESE FICTION	JAPANESE NON-FICTION
1	**Oitekoso Jinsei** *by Shintaro Ishihara* Essay on ageing by Tokyo's governor	**Ikikata Jozu** *by Shigeaki Hinohara* Nonagenarian doctor's tips
2	**Aozora no Mukouni** *by Alex Shearer* Dead boy returns to the real world as a spirit	**Jinsei Hyakunen Watashino Kufu** *by Shigeaki Hinohara* More tips from the elderly doctor
3	**Kimito Arukeba** *by Shizuka Ijuin* Short stories about dogs	**Josho no Hou** *by Ryuho Okawa* Cult leader's teachings
4	**Heisei 30-nen** *by Taichi Sakaiya* Japan in 2018	**Koenidashite Yomitai Nihongo** *by Takashi Saito* Brushing up your language skills
5	**Mohohan** *by Miyuki Miyabe* Modern times, modern crimes	**Hakoiri Musume** *by Momoko Sakura and Morning Musume* Interviews with a girl-group
6	**Ningen Jushoroku** *by Hideko Takamine* Actress's reminiscences	**Ainori** *edited by TV Life* Results of matchmaking trips
7	**Shiba Ryotaro ga Kangaetakoto** *by Ryotaro Shiba* Posthumous anthology	**Rieko Miura Shashinshu** *by Katsumi Omura* Raunchy photos of a pop diva
8	**Hanabiya no Taisho** *by Saiichi Maruya* Grab-bag of miscellaneous essays	**Hontono Gakuryoku wo Tsukeru Hon** *by Hideo Kageyama* Advice for parents of school-age children
9	**Haruko Joka** *by Kaoru Takamura* Epistolary novel between mother and son	**Berabera Book** *published by Pia* English conversation textbook
10	**Fugyo Fukutsu** *by Ryo Takasugi* Accountant takes on the tax office	**Kagayakeru Ko** *by Daiji Akehashi* Handling kids with an attitude problem

	INDIAN FICTION	INDIAN NON-FICTION
1	**Circles of Silence** *by Preeti Singh* Arranged marriage and unexpected tragedy	**India Unbound** *by Gurcharan Das* Nation's social and economic transformation
2	**The Minister's Wife** *by Amaresh Mishra* Politics, crime and kinky sex	**Kalam Ki Kalam Se** *by A.P.J. Abdul Kalam* Three-in-one package by India's new president
3	**On Women, Love and Lust** *by Khushwant Singh* Male-female relations in world literature	**Food: Your Miracle Medicine** *by Jean Carper* Healing powers of good grub
4	**Shock** *by Robin Cook* Medical thriller	**What to Expect** *by Arlene Eisenberg et al* Three-in-one anthology of parenting tips
5	**Mystic River** *by Dennis Lehane* Bostonian *Bildungsroman*	**Ignited Minds** *by A.P.J. Abdul Kalam* Harnessing India's potential strengths
6	**Family Matters** *by Rohinton Mistry* Ailing patriarch at the mercy of his children	**The Five Love Languages** *by Gary Chapman* How to say "I love you" convincingly
7	**English August** *by Upamanyu Chatterjee* Civil servant gets hot under the collar	**What to Expect: The First Year** *by Arlene Eisenberg et al* Now things get tough
8	**Bridget Jones: The Edge of Reason** *by Helen Fielding* Further tribulations of a singleton	**What to Expect: When You Are Expecting** *by Arlene Eisenberg et al* The push before the push
9	**The Great Indian Novel** *by Shashi Tharoor* Updated, satirical "Mahabharata"	**India 2020** *by A.P.J. Abdul Kalam* Vision of India in the 21st century
10	**Nostradamus and his Prophecies** *by Edgar Leoni* Great seer's hits and misses	**Wings of Fire** *by A.P.J. Abdul Kalam* Autobiography of a scientist and statesman

Sources: Tohan; Indiatimes.com

Descriptions by *The Economist*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Joaquin Balaguer

Aug 1st 2002
From The Economist print edition

Corbis

Joaquin Balaguer Ricardo, poet and strongman, died on July 14th, aged 95

> One night, after eating his usual austere supper, with his sisters, of chicken broth, white rice, salad and milk pudding, the President fainted when he stood up to go to bed. He lost consciousness for only a few seconds, but Dr Felix Goico warned him: if he continued working at this pace, his heart or his brain would explode like a grenade...
>
> To ease his spirit, for several hours, on Sundays after Mass, he would read romantic or Modernist poems, or the Castilian classics of the Golden Age. On occasion some irate citizen would insult him in the street—"Balaguer, the paper doll!"—but most of the time people offered a greeting: "Good afternoon, Mr President." He would thank them ceremoniously, tipping his hat, which he was in the habit of wearing pulled down over his ears so the wind would not blow it off.

IT OFTEN seemed that the Caribbean wind would blow Joaquin Balaguer off: a tiny man, neat as a bantam, mostly blind and partly deaf, who was swallowed up by ceremonial chairs and who, by the end, had to be carried by his henchmen into international meetings. Yet he dominated the chaotic and brutal politics of the Dominican Republic for the best part of 40 years. When he ran his final race, in 2000, his rickety country was at last growing steadily, but still in hock to the IMF and crippled by low sugar prices. For much of his time in power only hated Haiti, black-African and non-Spanish, sharing the island of Hispaniola to the west, could make the Dominican Republic look good. Yet the Old Doctor, as Dominicans called him, kept wirily bouncing back.

No one quite knew where his formidable strength resided; looking through those thick lenses, into those expressionless eyes, you could not fathom him. Mario Vargas Llosa, whose book, "The Feast of the Goat", is cited above, provides some of the answer. Balaguer was a poet and wordsmith, and his political resilience sprang largely from that. At terrifying moments—as when, after the killing of Rafael Leonidas Trujillo in 1961, he had to face down generals baying for vengeance—Mr Balaguer took refuge in exquisitely worded sentences uttered in his golden voice, turning the machine guns aside.

Writers and politicians have a strange symbiosis in Latin America. Mr Vargas Llosa himself ran unsuccessfully for president of Peru; Romulo Betancourt, a novelist, was president of Venezuela. Power feeds poetry with grand themes; poetry, in turn, can flatter and disarm power. For much of Trujillo's time as dictator, from 1930 to 1961, this was Mr Balaguer's role. He silvered and softened the brutality, while kissing the hand that fed him.

Nothing, it seemed, made this strange figure—a lifelong bachelor, a teetotaller, almost painfully abstemious, notably pious in church—a natural right-hand man for the swaggering, pomaded, whoring, grasping Trujillo. Mr Balaguer was born in Villa Navarrete, a backwater town, and seemed destined for the world of academia. His first jobs under Trujillo were diplomatic ones in Madrid, Paris and Mexico. In 1960, when Trujillo's brother “Blacky” resigned the post, he became president, a purely formal role. The limp-wristed scribbler would make no trouble, while Trujillo and his generals ran the tyranny.

The Americans, who found Trujillo disgusting but necessary (another “our son of a bitch”), had hopes after his death of the equally anti-communist Balaguer. The little poet had an extraordinary gift for mediation, disarming his enemies by taking them into his cabinet, building bridges to the restive Catholic clergy, stepping aside when necessary, and soothing Washington with sweet words such as “change” and “democracy”. For a time, in the early 1960s, he was an exile in New York; when he returned to power, in 1966, it was virtually under American protection after an invasion by the marines.

Yet democracy—that messy *dogma de la alternabilidad*, as he once called it—lacks poetic grandeur or simplicity. As Mr Balaguer became set in place, winning five elections between 1966 and 1990, he ruled more and more as Trujillo had done. In 1989 he personally controlled more than half the budget, and in some years 95% of the value of all public works was siphoned to half a dozen companies, his friends. Left-wing opponents were crushed. Signs reading “Balaguer is My North Star” appeared in military barracks.

Although he eschewed titles and uniforms, preferring the sober suit and the black fedora, he too became the Father of his Country. On Saturdays and Sundays he would travel, by helicopter or in his special ‘Balaguermobile', to tiny villages, where he handed out bicycles to children and scarlet underwear to women and listened, with grave attention, to stories of failing water pipes and sick cattle. Vast public works were undertaken to make jobs and bring in tourists. The most grandiose, costing perhaps $250m, was a vast concrete lighthouse commemorating Columbus, who landed in Hispaniola in 1492. The monument shoots a great cross of light into the sky above Santo Domingo.

All through these years, Mr Balaguer kept writing: poems, novels, a little non-fiction. He set aside time each day for this, writing by hand and, as blindness advanced, dictating. His poetry, like him, was formal and old-fashioned, with perfect manners. *Orden y paz*, order and peace, were his watchwords. In the end, democracy, like free verse, did not scan.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Aug 1st 2002
From The Economist print edition

Stockmarkets in America and Europe rebounded from their recent multiple-year lows. The Dow Jones Industrial Average jumped by 6.7% over the week. **Bonds**, which had been gaining at equities' expense, fell back a little. The yield on America's ten-year Treasury bonds rose to 4.46% from 4.40% a week earlier.

America's economic growth slowed sharply in the second quarter. GDP rose by 1.1% at an annual rate, though most forecasters had predicted growth of 2.2%. Newly revised figures for 2001 now show that the economy shrank for three consecutive quarters; earlier estimates had the economy shrinking only in the third quarter, defying one popular definition of a recession. The economy is now reckoned to have grown by a mere 0.3% in 2001, not the 1.2% estimated earlier.

Two surveys suggest that volatile equity markets have taken their toll on **America's consumer sentiment**. The Conference Board's survey of consumer confidence fell from 106.3 in June to 97.1 in July, a worse result than expected. Final results from the University of Michigan's survey showed its index slipping to 88.1 in July from 92.4 in June.

Consumer-price inflation in the **euro area** rose from 1.8% in the year to June to 1.9% in the year to July. France's INSEE business-climate index and Germany's IFO business-confidence index both reported sharp declines in July. French unemployment rose to 9.0% in July, up from a revised 8.9% in June.

Japan's industrial output fell by 2.9% in the year to June, when it recorded its first monthly fall in five months. The unemployment rate remained at 5.4% in June, but the number of unemployed rose for the 15th month in a row. Consumer prices fell year-on-year in June for the 34th successive month. Manufacturing wages fell by 3.2% in the year to June.

Switzerland's central bank surprised analysts by cutting interest rates by half a percentage point, to 0.75%. The plunge in global stockmarkets and the strong Swiss franc threaten Swiss economic growth.

After six months of slow growth, **Britain's economy** grew by 0.9% in the second quarter. British consumer borrowing slowed in June; some analysts chalked up the slowdown to exceptional events, such as the World Cup, rather than to any new worries over high debts.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Aug 1st 2002
From The Economist print edition

% change on year ago

	GDP			The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate		
	1 qtr*	1 year		2002	2003	latest		latest		latest		year ago
Australia	+ 3.6	+ 4.2	Q1	+ 4.0	+ 3.9	+ 4.3	Q1	+ 6.3	Q2	6.5	Jun	6.9
Austria	+ 0.3	- 0.6	Q1	+ 1.2	+ 2.6	+ 1.6	May	- 1.1	Apr	4.1	May	3.5
Belgium	+ 1.8	- 0.3	Q1	+ 1.4	+ 3.1	- 2.5	May	+ 1.8	Apr	10.4	Jun†	9.9
Britain	+ 3.8	+ 1.5	Q2	+ 1.7	+ 3.0	- 1.9	May	+ 4.6	Jun	5.2	May‡	4.9
Canada	+ 6.0	+ 2.1	Q1	+ 3.2	+ 3.6	+ 0.5	May	+ 4.3	May	7.5	Jun	7.0
Denmark	+ 1.4	+ 1.1	Q1	+ 1.6	+ 2.4	+ 2.5	May	+ 1.5	Apr	5.1	May	5.2
France	+ 1.4	+ 0.3	Q1	+ 1.4	+ 2.9	+ 0.3	May	+ 2.3	May	9.0	Jun††	8.6
Germany	+ 0.7	- 1.2	Q1	+ 0.9	+ 2.6	- 3.9	May	- 5.2	Jun	9.8	Jun§	9.3
Italy	+ 0.6	+ 0.1	Q1	+ 1.2	+ 2.8	- 1.5	May	- 0.2	May	9.0	Apr	9.5
Japan	+ 5.7	- 1.6	Q1	- 0.4	+ 1.2	- 2.9	Jun	- 2.2	May	5.4	Jun	4.9
Netherlands	+ 0.4	+ 0.3	Q1	+ 1.2	+ 2.8	- 2.0	May	+ 3.3	Apr	2.5	Jun**	2.0
Spain	+ 2.1	+ 2.0	Q1	+ 2.2	+ 3.3	- 1.7	May	na		11.4	May††	10.6
Sweden	+ 1.1	+ 1.1	Q1	+ 1.7	+ 2.9	+ 1.9	May	+ 4.9	May	4.0	Jun†	4.4
Switzerland	+ 0.7	+ 0.2	Q1	+ 1.1	+ 2.3	- 8.8	Q1	- 2.4	May	2.5	Jun†	1.6
United States	+ 1.1	+ 2.1	Q2	+ 2.8	+ 3.5	+ 0.2	Jun	+ 4.9	May	5.9	Jun	4.6
Euro area	+ 0.9	+ 0.3	Q1	+ 1.2	+ 2.8	- 1.2	May	+ 0.1	Apr	8.3	May††	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	- 0.6	- 2.0	Q1	na	na	+ 5.5	Jun	+ 2.4	Apr	9.0	Jun†	9.3
Greece	na	+ 4.3	Q1	na	na	+ 0.6	May	+ 9.9	Apr	na		na
Iceland	na	+ 3.1	2001	na	na	+ 3.3	2001	na		2.3	Jun†	1.2
Ireland	na	+ 2.9	Q1	na	na	+16.5	May	+ 0.3	May	4.3	Jun	3.7
Luxembourg	na	+ 3.5	2001	na	na	+ 8.8	Apr	+ 9.9	Feb	2.7	May	2.4
New Zealand	+ 4.3	+ 4.0	Q1	na	na	+ 4.3	Q1	+ 8.2	Q1	5.3	Q1	5.4
Norway	- 1.1	+ 1.0	Q1	na	na	+ 7.9	May	+ 3.1	May	4.1	Q1	3.7
Portugal	+ 1.4	+ 1.4	Q1	na	na	+ 0.8	May	+ 0.5	May	4.4	Q1†	4.2

*% change at an annual rate. †Not seasonally adjusted. ‡Mar-May; claimant count rate 3.2% in June. §EU harmonised rate 8.3%. **Apr-Jun. ††Revised series.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Aug 1st 2002
From The Economist print edition

% change on year ago

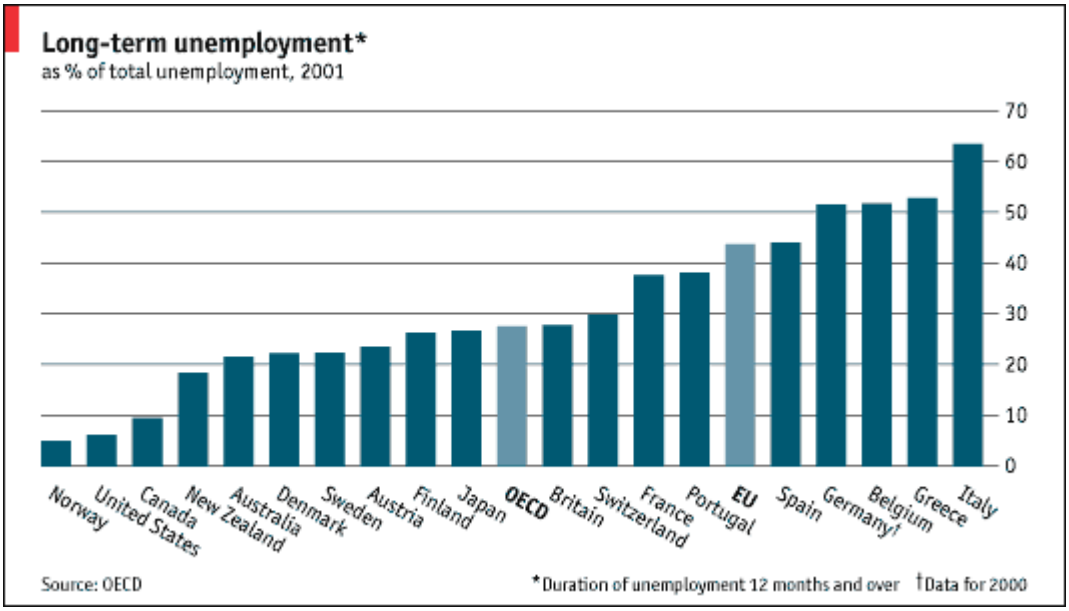
	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2002	2003	latest	year ago	latest	year ago
Australia	+ 2.8 Q2	+ 6.0	+ 2.7	+ 2.6	– 1.1 Q2	+ 5.6	+ 4.3 Q1	+ 5.6
Austria	+ 1.7 Jun	+ 2.8	+ 1.8	+ 1.7	– 1.7 Jun	+ 2.9	+ 2.4 Jun	+ 2.7
Belgium	+ 1.3 Jul	+ 2.7	+ 1.9	+ 1.6	+ 2.4 Jun	+ 0.9	+ 2.6 Q2	+ 2.6
Britain	+ 1.0 Jun	+ 1.9	+ 2.1	+ 2.5	nil Jun	+ 0.4	+ 3.8 May	+ 4.5
Canada	+ 1.3 Jun	+ 3.3	+ 1.7	+ 2.2	– 1.2 Jun	+ 1.5	+ 2.8 May	+ 0.7
Denmark	+ 2.2 Jun	+ 2.3	+ 2.3	+ 2.1	– 1.2 Jun	+ 3.2	+ 4.0 Q1	+ 3.8
France	+ 1.4 Jun	+ 2.1	+ 1.8	+ 1.5	– 1.5 Jun	+ 2.3	+ 3.9 Q1	+ 4.3
Germany	+ 1.0 Jul	+ 2.6	+ 1.5	+ 1.4	– 1.5 Jun	+ 3.1	+ 2.1 Apr	+ 1.5
Italy	+ 2.2 Jul	+ 2.9	+ 2.3	+ 2.0	– 0.8 Jun	+ 2.4	+ 2.4 Jun	+ 2.7
Japan	– 0.7 Jun	– 0.8	– 1.0	– 0.4	– 1.0 Jun	+ 0.8	– 3.2 Jun	+ 2.1
Netherlands	+ 3.4 Jun	+ 4.5	+ 3.6	+ 2.5	– 2.2 Jun	+ 4.3	+ 3.0 Jun	+ 5.1
Spain	+ 3.4 Jun	+ 4.2	+ 3.3	+ 2.8	+ 0.5 Jun	+ 2.4	+ 4.0 Q1	+ 3.4
Sweden	+ 2.0 Jun	+ 2.9	+ 2.4	+ 2.1	– 0.6 Jun	+ 2.2	+ 4.1 May	+ 3.6
Switzerland	– 0.1 Jul	+ 1.4	+ 0.8	+ 1.2	– 1.7 Jun	+ 0.4	+ 2.5 2001	+ 1.3
United States	+ 1.1 Jun	+ 3.2	+ 1.7	+ 2.3	– 2.1 Jun	+ 2.6	+ 3.3 Jun	+ 4.1
Euro area	+ 1.9 Jul	+ 2.8	+ 2.2	+ 1.8	– 0.9 May	+ 3.7	+ 3.3 Q1	+ 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.1 Jun	+ 3.1	na	na	– 1.9 Jun	+ 1.9	+ 3.2 Q1	+ 5.1
Greece	+ 3.3 Jun	+ 3.9	na	na	+ 3.1 Apr	+ 5.1	na	na
Iceland	+ 4.1 Jul	+ 7.0	na	na	+ 6.2 Jul	+ 6.7	+ 6.9 Jun	+ 8.2
Ireland	+ 4.4 Jun	+ 5.3	na	na	– 1.3 Jun	+ 5.0	+ 8.9 Q1	+ 7.4
Luxembourg	+ 1.7 Jun	+ 2.9	na	na	– 2.4 May	+ 1.4	+ 0.9 May	+ 2.7
New Zealand	+ 2.8 Q2	+ 3.2	na	na	+ 2.8 Q1	+ 8.0	+ 2.1 Q1	+ 1.8
Norway	+ 0.4 Jun	+ 3.8	na	na	–15.8 Jun	+ 3.5	+ 4.6 Q1	+ 4.4
Portugal	+ 3.4 Jun	+ 4.5	na	na	– 3.8 Jun	+ 4.2	na	na

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Long-term unemployment

Aug 1st 2002
From The Economist print edition



Over a quarter of unemployed workers in OECD countries have been out of a job for a year or more. In the European Union, the long-term unemployed make up 44% of the total; in America they are only 6%. In general, the longer their spell of joblessness, the less competitive the long-term unemployed become in the labour market, which allows their job-holding peers to secure higher wages despite high unemployment.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Aug 1st 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jul 31st 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 3.7	+14.9	May	4.94	5.04	5.17	5.94	6.07	6.86
Britain	+ 9.4	+ 6.5	Jun	3.97	5.19	4.04	4.85	4.99	6.03
Canada	+14.5	+ 5.8	Jun	2.83	4.03	3.30	5.28	5.64	7.13
Denmark	+ 3.2	+ 7.3	Jun	3.64	4.80	4.18	4.93	5.11	6.89
Japan	+32.1	+ 3.4	Jun	0.02	0.02	0.00	1.30	1.33	1.41
Sweden	+ 2.5	+ 7.3	Apr	4.26	4.29	4.55	5.16	5.17	5.14
Switzerland	+ 8.5	+ 4.3	Jun	0.82	3.19	1.51	2.96	3.31	4.03
United States	+ 5.6	+ 7.2	Jun	1.74	3.54	2.17	4.46	5.03	6.83
Euro area†	+ 6.9	+ 7.1	Jun	3.38	4.43	3.64	4.67	4.81	5.98

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.31%, Japan No.240 1.32%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Aug 1st 2002
From The Economist print edition

1995=100

	Jul 23rd	Jul 30th*	% change on one month	% change on one year
Dollar index				
All items	73.2	71.6	– 1.3	+ 3.3
Food	76.3	74.2	+ 1.0	+ 5.1
Industrials				
All	69.0	68.0	– 4.5	+ 0.8
Nfa†	70.6	70.1	– 3.2	+ 3.6
Metals	67.6	66.2	– 5.5	– 1.5
Sterling index				
All items	73.9	71.8	– 3.8	– 6.3
Euro index				
All items	97.1	95.4	– 1.4	– 8.4
Yen index				
All items	91.5	91.5	– 1.4	– 0.6
Gold				
$ per oz	318.60	305.55	– 2.8	+14.8
West Texas Intermediate				
$ per barrel	26.36	27.36	+ 2.0	+ 2.3

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Aug 1st 2002
From The Economist print edition

Market indices

	Jul 31st	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,032.6	3,440.0	2,941.1	+ 2.3	-11.8	- 9.7	- 4.0
Austria (ATX)	1,141.1	1,357.2	1,114.4	+ 1.8	-34.3	+ 0.1	+10.1
Belgium (Bel 20)	2,255.8	2,899.8	2,001.6	+14.0	-38.7	-18.9	-10.7
Britain (FTSE 100)	4,246.2	5,323.8	3,777.1	+12.4	-38.7	-18.6	-12.7
Canada (Toronto Composite)	6,605.4	7,958.1	6,161.1	+ 3.5	-42.0	-14.1	-13.4
Denmark (KBX)	183.7	233.4	169.0	+ 8.7	-39.1	-18.3	-10.0
France (SBF 250)	2,295.0	3,081.9	2,067.7	+11.0	-47.7	-23.0	-15.3
(CAC 40)	3,415.4	4,688.0	3,023.7	+13.0	-50.7	-26.1	-18.7
Germany (Xetra DAX)	3,700.1	5,462.6	3,515.8	+ 1.9	-54.1	-28.3	-21.1
Italy (BCI)	1,173.8	1,513.0	1,077.8	+ 8.9	-46.2	-18.1	- 9.9
Japan (Nikkei 225)	9,877.9	11,979.9	9,420.9	- 0.7	-74.6	- 6.3	+ 2.5
(Topix)	965.0	1,139.4	922.5	- 1.2	-66.5	- 6.5	+ 2.3
Netherlands (AEX)	363.6	531.2	318.5	+14.2	-48.2	-28.3	-21.0
Spain (Madrid SE)	655.5	848.1	631.2	+ 3.9	-42.8	-20.5	-12.5
Sweden (Affarsvarlden Gen)	157.7	236.8	143.5	+10.2	-60.6	-31.9	-24.9
Switzerland (Swiss Market)	5,196.7	6,694.1	4,607.8	+12.8	-38.2	-19.0	- 9.3
United States (DJIA)	8,736.6	10,635.3	7,702.3	+ 6.7	-25.5	-12.8	-12.8
(S&P 500)	911.6	1,172.5	797.7	+ 8.1	-40.3	-20.6	-20.6
(Nasdaq Comp)	1,328.3	2,059.4	1,229.0	+ 3.0	-73.7	-31.9	-31.9
Europe (FTSE Eurotop 300)*	959.6	1,279.7	862.3	+11.3	-43.7	-23.9	-16.2
Euro area (FTSE Ebloc 100)*	801.5	1,125.1	732.5	+ 9.4	-48.3	-27.9	-20.7
World (MSCI)†	830.5	1,024.4	756.7	+ 7.0	-42.7	na	-17.2
World bond market (Salomon)‡	487.7	497.8	430.3	- 1.4	- 2.0	na	+10.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Trade, exchange rates and budgets

Aug 1st 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† Jul 31st	Exchange rate trade-weighted† year ago	Currency units per $ Jul 31st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	− 0.1 Jun	− 9.5 Q1	− 3.3	− 3.6	72.6	72.8	1.84	1.94	2.87	1.80	1.53	0.1
Austria	− 2.4 Apr	− 1.3 May	− 2.2	− 2.0	100.8	100.1	1.02	1.14	1.59	–	0.85	-0.3
Belgium	+ 13.0 May	+ 13.0 Dec	+ 5.0	+ 5.3	100.0	98.7	1.02	1.14	1.59	–	0.85	nil
Britain	− 45.6 May	− 31.2 Q1	− 2.2	− 2.1	107.0	106.8	0.64	0.70	–	0.63	0.53	-0.8
Canada	+ 34.7 May	+ 14.7 Q1	+ 2.2	+ 2.3	75.5	78.4	1.58	1.54	2.47	1.55	1.32	1.0
Denmark	+ 7.1 May	+ 3.5 May	+ 1.9	+ 1.9	103.1	101.9	7.58	8.47	11.8	7.43	6.33	2.2
France	+ 8.5 May	+ 26.2 May	+ 1.8	+ 1.7	102.9	101.3	1.02	1.14	1.59	–	0.85	-2.0
Germany	+ 96.5 May	+ 19.8 May	+ 1.1	+ 1.1	100.0	98.2	1.02	1.14	1.59	–	0.85	-2.8
Italy	+ 9.3 May	− 1.4 Apr	+ 0.1	nil	73.4	72.3	1.02	1.14	1.59	–	0.85	-1.4
Japan	+ 76.3 May	+101.3 May	+ 2.7	+ 2.7	134.5	135.9	120	125	187	117	–	-8.0
Netherlands	+ 23.6 May	+ 13.6 Q1	+ 4.0	+ 4.1	99.1	97.6	1.02	1.14	1.59	–	0.85	0.1
Spain	− 36.9 May	− 16.6 Apr	− 2.2	− 1.9	75.0	74.0	1.02	1.14	1.59	–	0.85	-0.3
Sweden	+ 14.3 Jun	+ 8.4 May	+ 3.2	+ 3.3	76.4	74.9	9.51	10.6	14.9	9.32	7.94	2.1
Switzerland	+ 2.7 Jun	+ 25.7 Q1	+ 9.8	+10.1	115.1	109.0	1.48	1.72	2.31	1.45	1.24	na
United States	−430.3 May	−398.1 Q1	− 4.3	− 4.6	113.5	120.0	–	–	1.56	0.98	0.83	-1.0
Euro area	+ 72.7 May	+ 20.2 May	+ 0.4	+ 0.5	81.6	78.1	1.02	1.14	1.59	–	0.85	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.5 May	+ 7.9 May	na	na	79.2	78.0	1.02	1.14	1.59	–	0.85	3.2
Greece	− 19.1 Dec	− 6.7 Mar	na	na	58.0	57.3	1.02	1.14	1.59	–	0.85	0.4
Iceland	+ 0.1 Jun	− 0.2 Q1	na	na	na	na	85.9	98.6	134	84.2	71.7	-0.5
Ireland	+ 33.9 May	− 0.4 Q1	na	na	89.1	86.8	1.02	1.14	1.59	–	0.85	0.1
Luxembourg	− 2.9 Apr	+ 1.7 Q1	na	na	100.0	98.7	1.02	1.14	1.59	–	0.85	2.2
New Zealand	+ 0.2 Jun	− 1.2 Q1	na	na	85.8	79.9	2.12	2.41	3.32	2.08	1.77	0.1
Norway	+ 25.3 Jun	+ 26.1 May	na	na	104.5	95.5	7.54	9.11	11.8	7.39	6.29	14.0
Portugal	− 12.9 Apr	− 9.3 May	na	na	90.0	89.1	1.02	1.14	1.59	–	0.85	-2.4

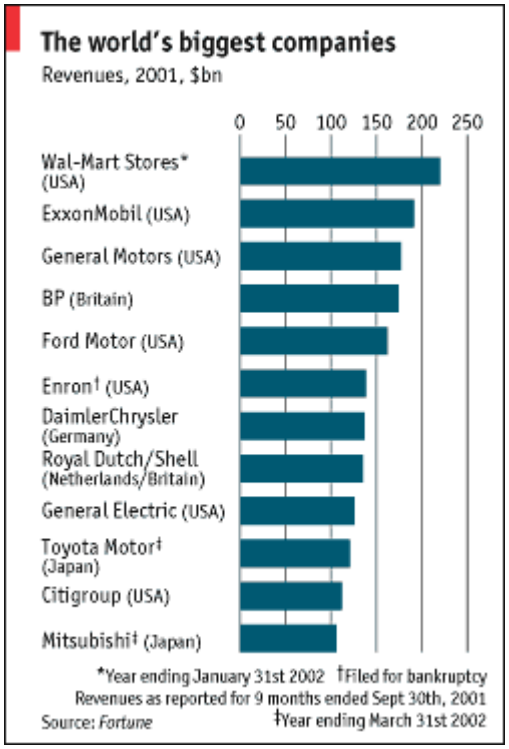
*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The world's biggest companies

Aug 1st 2002
From The Economist print edition



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Aug 1st 2002
From The Economist print edition

The **Brazilian *real*** plunged by 8.6% in a single day, falling to a record low of 3.57 to the dollar. Investors fear a retreat from today's strict economic policies and the risk of debt default after October's presidential elections. Brazil's 12-month current account deficit narrowed to $18 billion in June, from $19 billion in May.

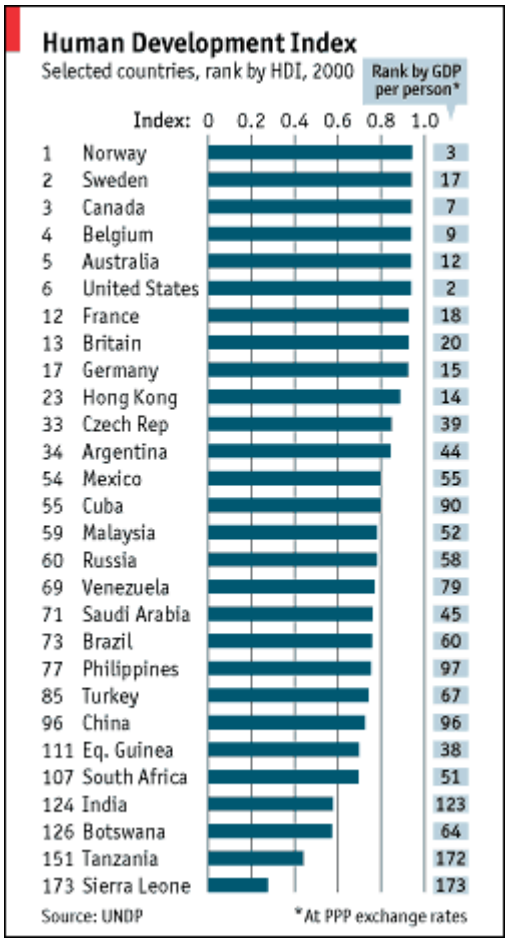
Asia's factories are getting busier. In the year to June, industrial production rose by 18.9 % in **Singapore**, by 5.4% in **South Korea** and by 6.2% in **Thailand**. Consumer prices in **Malaysia** rose by 2.1% in the year to June, up from 1.9% in the year to May.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Human Development Index

Aug 1st 2002
From The Economist print edition

It takes more than money to make a civilised society, according to this year's Human Development Report from the United Nations Development Programme. The report ranks 173 countries according to their score on the Human Development Index, which takes life expectancy, education and income per head into account: the higher the score, the better the performance. Norway, Sweden and Canada are top of the league, outranking America, although their GDP per person trails the United States. Among poor countries, Cuba outranks Botswana, a country with a higher GDP, in keeping its people healthy and educated; the HDI does not, however, take account of political freedom.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Aug 1st 2002
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.0	Q2	+12.4	Jun	– 0.8	Jun	+27.9	Jun	+21.2	2001§	237.2	Apr
Hong Kong	– 0.9	Q1	–11.6	Q1	– 3.3	Jun	– 8.5	Jun	+14.1	Q1	112.4	Jun
India	+ 6.4	Q1	+ 3.8	May	+ 4.7	May	– 5.4	Jun	+ 1.4	Q1	54.7	Jun
Indonesia	+ 2.5	Q1	– 9.4	Q4	+10.1	Jul	+27.5	Jun	+ 8.4	Q3	27.9	May
Malaysia	+ 1.1	Q1	+ 4.0	May	+ 2.1	Jun	+13.4	Jun	+ 7.0	Q1	32.4	Jun
Philippines	+ 3.8	Q1	+17.0	Apr	+ 3.0	Jun	+ 2.5	May	+ 5.6	Apr	14.1	Jun
Singapore	+ 3.2	Q2	+18.9	Jun	+ 0.1	Jun	+ 5.7	Jun	+18.4	Q1	80.4	Jun
South Korea	+ 5.7	Q1	+ 5.4	Jun	+ 2.1	Jul	+ 9.0	Jul	+ 5.7	Jun	112.4	Jun
Taiwan	+ 0.9	Q1	+ 8.4	Jun	+ 0.1	Jun	+18.6	Jun	+22.0	Q1	148.2	Jun
Thailand	+ 3.9	Q1	+ 6.2	Jun	+ 0.2	Jun	+ 3.8	Jun	+ 6.6	Jun	34.5	May
Argentina	–16.3	Q1	–12.4	Jun	+28.4	Jun	+12.6	Jun	nil	Q1	10.2	May
Brazil	– 0.7	Q1	– 0.9	May	+ 7.7	Jun	+ 5.3	Jun	–18.1	Jun	32.9	May
Chile	+ 1.5	Q1	– 2.0	Jun	+ 2.0	Jun	+ 2.3	Jun	– 1.0	Q1	15.0	May
Colombia	+ 0.5	Q1	– 0.7	May	+ 6.3	Jun	+ 0.5	May	– 1.4	Q1	10.7	Jun
Mexico	– 2.0	Q1	+ 0.9	May	+ 4.9	Jun	– 9.2	Jun	–16.8	Q1	44.9	May
Peru	+ 4.3	May	+ 8.6	Apr	nil	Jul	nil	May	– 1.0	Q1	8.7	Jun
Venezuela	– 4.2	Q1	–20.0	Mar	+19.6	Jun	+ 8.0	Q1	+ 1.8	Q1	6.7	Apr
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.7	Apr	– 8.4	Mar	– 0.1	Q1	12.6	Mar
Israel	– 4.2	Q1	+ 0.1	May	+ 6.6	Jun	– 6.4	Jun	– 2.3	Q1	24.8	Jun
South Africa	+ 2.1	Q1	+ 6.8	May	+ 8.9	Jun	+ 3.5	Jun	– 0.1	Q1	5.9	Jun
Turkey	+ 2.3	Q1	+11.0	May	+42.6	Jun	– 9.7	May	+ 2.6	Apr	22.3	Jun
Czech Republic	+ 2.5	Q2	+ 5.1	May	+ 1.2	Jun	– 2.5	Jun	– 2.4	Q1	21.2	Jun
Hungary	+ 2.9	Q1	– 0.7	May	+ 4.8	Jun	– 2.4	May	– 1.8	May	10.2	Jun
Poland	+ 0.5	Q1	+ 2.2	Jun	+ 1.6	Jun	–10.8	May	– 7.1	May	28.2	Jun
Russia	+ 3.7	Q1	+ 4.4	Jun	+14.9	Jun	+43.4	May	+31.2	Q1	39.8	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 6.3	Mar	+ 2.9	May	– 1.2	Jun	+ 0.3	2001†	4.1	May
Saudi Arabia	+ 1.2	2001	na		nil	Mar	+44.1	2001	+14.5	2001	18.4	May

*Excluding gold, except Singapore; IMF definition. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Aug 1st 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 31st		Dec 31st 2001	
	Jul 31st	year ago	Jul 31st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.9	na	1,723.6	-1.2	+ 0.6	+ 0.6
Hong Kong	7.80	7.80	12.2	1.79	10,267.4	+3.0	- 9.9	- 9.9
India	48.7	47.1	76.0	5.84	2,987.7	-3.9	- 8.4	- 9.3
Indonesia	9,065	9,625	14,157	15.46	463.7	+0.8	+ 18.3	+ 35.7
Malaysia	3.80	3.80	5.93	3.20	721.6	+0.9	+ 3.7	+ 3.7
Philippines	51.3	53.8	80.1	6.94	1,123.2	-2.2	- 3.8	- 3.2
Singapore	1.76	1.80	2.75	0.75	1,508.4	-0.9	- 7.1	- 2.7
South Korea	1,178	1,292	1,840	4.84	718.0	-0.5	+ 3.5	+ 15.4
Taiwan	33.6	34.7	52.5	2.05	4,940.4	- 2.0	- 11.0	- 7.3
Thailand	42.0	45.7	65.6	2.00	376.0	+0.4	+ 23.8	+ 30.2
Argentina	3.70	1.00	5.78	73.60	359.3	- 1.3	+ 21.6	- 67.1
Brazil	3.57	2.49	5.57	17.87	9,762.6	- 1.8	- 28.1	- 53.4
Chile	705	676	1,100	3.24	4,954.7	+4.3	- 8.2	- 13.9
Colombia	2,645	2,293	4,131	7.74	1,187.1	- 1.4	+ 10.9	- 4.5
Mexico	9.82	9.19	15.3	6.71	6,021.8	+0.2	- 5.5	- 11.8
Peru	3.54	3.49	5.53	2.75	1,169.6	-1.2	- 0.5	- 3.1
Venezuela	1,341	727	2,094	29.38	7,134.1	+ 1.2	+ 8.6	- 38.6
Egypt	4.65	3.95	7.25	7.20	5,205.3	-4.0	- 1.3	- 2.8
Israel	4.68	4.21	7.31	6.40	362.2	+3.4	- 18.9	- 23.6
South Africa	10.2	8.25	16.0	12.40	9,239.0	-1.6	- 11.5	+ 3.8
Turkey	1,693,500	1,340,000	2,644,908	44.00	10,236.5	+ 5.4	- 25.7	- 36.2
Czech Republic	30.8	38.6	48.1	3.08	450.3	+10.7	+ 14.1	+ 31.8
Hungary	249	282	389	9.65	7,048.6	+7.0	- 1.2	+ 8.9
Poland	4.18	4.26	6.53	8.69	12,907.6	+ 1.2	- 7.3	- 12.3
Russia	31.5	29.3	49.2	23.00	326.2‡	+0.4	+ 29.7	+ 25.4
EMF (MSCI)*	1.00	1.00	1.56	na	294.6	-2.5	na	- 7.2
EMBI+†	1.00	1.00	1.56	na	191.3	-4.6	na	- 4.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.